ISSUE 11

Did the New Deal Prolong the Great Depression?

YES: Jim Powell, from *FDR's Folly: How Roosevelt and His New Deal Prolonged the Great Depression* (Crown Forum, 2003)

NO: Roger Biles, from *A New Deal for the American People* (Northern Illinois University Press, 1991)

ISSUE SUMMARY

YES: Historian and editor of Laissez-Faire books Jim Powell argues that "the New Deal itself, with its short-sighted programs . . . deepened the Great Depression, swelled the federal government, and prevented the country from turning around quickly."

NO: Professor of history Roger Biles contends that, in spite of its minimal reforms and non-revolutionary programs, the New Deal created a limited welfare state that implemented economic stabilizers to avert another depression.

The catastrophe triggered by the 1929 Wall Street debacle crippled the American economy, deflated the optimistic future most Americans assumed to be their birthright, and ripped apart the values by which the country's businesses, farms, and governments were run. During the next decade, the inertia of the Great Depression stifled their attempts to make ends meet.

The world depression of the 1930s began in the United States. The United States had suffered periodic economic setbacks—in 1873, 1893, 1907, and 1920—but those slumps had been limited and temporary. The omnipotence of American productivity, the ebullient American spirit, and the self-deluding thought "it can't happen here" blocked out any consideration of an economic collapse that might devastate the capitalist economy and threaten U.S. democratic government.

All aspects of American society trembled from successive jolts; there were 4 million unemployed people in 1930 and 9 million more by 1932. Those who had not lost their jobs took pay cuts or worked for scrip. There was no security for those whose savings were lost forever when banks failed or stocks declined.

Manufacturing halted, industry shut down, and farmers destroyed wheat, corn, and milk rather than sell them at a loss. Worse, there were millions of

homeless Americans—refugees from the cities roaming the nation on freight trains, victims of the drought or the Dust Bowl seeking a new life farther west, and hobo children estranged from their parents.

Business and government leaders alike seemed immobilized by the economic giant that had fallen to its knees. Herbert Hoover, the incumbent president at the start of the Great Depression, attempted some relief programs. However, they were ineffective considering the magnitude of the unemployment, hunger, and distress.

As governor of New York, Franklin D. Roosevelt (who was elected president in 1932) had introduced some relief measures, such as industrial welfare and a comprehensive system of unemployment remedies, to alleviate the social and economic problems facing the citizens of the state. Yet his campaign did little to reassure his critics that he was more than a "Little Lord Fauntleroy" rich boy who wanted to be the president. In light of later developments, Roosevelt may have been the only presidential candidate to deliver more programs than he actually promised.

The first "hundred days" of the New Deal attempted to jump-start the economy with dozens of recovery and relief measures. On inauguration day, FDR told the nation "the only thing we have to fear is fear itself." A bank holiday was immediately declared. Congress passed the Emergency Banking Act, which pumped Federal Reserve notes into the major banks and stopped the wave of bank failures. Later banking acts separated commercial and investment institutions, and the Federal Deposit Insurance Corporation (FDIC) guaranteed people's savings from a loss of up to $2,500 in member banks. A number of relief agencies were set up that provided work for youth and able-bodied men on various state and local building projects. Finally the Tennessee Valley Administration (TVA) was created to provide electricity in rural areas not serviced by private power companies.

In 1935 the Supreme Court ended the First New Deal by declaring both the Agriculture Adjustment Administration and National Recovery Act unconstitutional. In response to critics on the left who felt that the New Deal was favoring the large banks, big agriculture, and big business, FDR shifted his approach in 1935. The Second New Deal created the Works Project Administration (WPA), which became the nation's largest employer in its eight years of operation. Social Security was passed, and the government guaranteed monthly stipends for the aged, the unemployed, and dependent children. Labor pressured the administration for a collective bargaining bill. The Wagner Act established a National Labor Relations Board to supervise industry-wide elections. The steel, coal, automobile and some garment industries were unionized as membership tripled from 3 million in 1933 to 9 million in 1939.

With the immediate crisis over, entrenched conservatives in Congress blocking new legislation and World War II looming, the New Deal ended by 1938. In the first selection, book editor Jim Powell argues that with its swollen government agencies, promotion of cartels, confiscatory taxes, and dubious antitrust lawsuits, the New Deal prolonged the depression. But historian Roger Biles contends that, in spite of its minimal reform programs, the New Deal created a limited welfare state that implemented economic stabilizers to avert another depression.

Jim Powell

YES

FDR's Folly: How Roosevelt and His New Deal Prolonged the Great Depression

The Great Depression has had an immense influence on our thinking, particularly about ways to handle an economic crisis, yet we know surprisingly little about it. Most historians have focused on chronicling Franklin D. Roosevelt's charismatic personality, his brilliance as a strategist and communicator, the dramatic One Hundred Days, the First New Deal, Second New Deal, the "court-packing" plan, and other political aspects of the story. Comparatively little attention has been paid to the effects of the New Deal.

In recent decades, however, many economists have tried to determine whether New Deal policies contributed to recovery or prolonged the depression. The most troubling issue has been the persistence of high unemployment throughout the New Deal period. From 1934 to 1940, the median annual unemployment rate was 17.2 percent. At no point during the 1930s did unemployment go below 14 percent. Even in 1941, amidst the military buildup for World War II, 9.9 percent of American workers were unemployed. Living standards remained depressed until after the war.

While there was episodic recovery between 1933 and 1937, the 1937 peak was lower than the previous peak (1929), a highly unusual occurrence. Progress has been the norm. In addition, the 1937 peak was followed by a crash. As Nobel laureate Milton Friedman observed, this was "the only occasion in our record when one deep depression followed immediately on the heels of another."

Scholarly investigators have raised some provocative questions. For instance, why did New Dealers make it more expensive for employers to hire people? Why did FDR's Justice Department file some 150 lawsuits threatening big employers? Why did New Deal policies discourage private investment without which private employment was unlikely to revive? Why so many policies to push up the cost of living? Why did New Dealers destroy food while people went hungry? To what extent did New Deal labor laws penalize blacks? Why did New Dealers break up the strongest banks? Why were Americans made more vulnerable to disastrous human error at the Federal Reserve? Why didn't New Deal securities laws help investors do better? Why didn't New Deal public works projects bring about a recovery? Why was so much New Deal relief spending channeled *away* from the poorest people? Why did the Tennessee Valley Authority become a drag on the Tennessee Valley?

Curiously, although the Great Depression was probably the most important economic event in twentieth-century American history, Stanford University's David M. Kennedy seems to be the only major political historian who has mentioned any of the recent findings. "Whatever it was," he wrote in his Pulitzer Prize-winning *Freedom from Fear* (1999), the New Deal "was not a recovery program, or at any rate not an effective one.

It's true the Great Depression was an international phenomenon—depression in Germany, for instance, made increasing numbers of desperate people search for scapegoats and support Adolf Hitler, a lunatic who couldn't get anywhere politically just a few years earlier when the country was still prosperous. But compared to the United States, as economic historian Lester V. Chandler observed, "in most countries the depression was less deep and prolonged. Regardless whether the depression originated in the United States or Europe, there is considerable evidence that New Deal policies prolonged high unemployment.

FDR didn't do anything about a major cause of 90 percent of the bank failures, namely, state and federal unit banking laws. These limited banks to a single office, preventing them from diversifying their loan portfolios and their source of funds. Unit banks were highly vulnerable to failure when local business conditions were bad, because all their loans were to local people, many of whom were in default, and all their deposits came from local people who were withdrawing their money. Canada, which permitted nationwide branch banking, didn't have a single bank failure during the Great Depression.

FDR's major banking "reform," the second Glass-Steagall Act, actually weakened the banking system by breaking up the strongest banks to separate commercial banking from investment banking. Universal banks (which served depositors and did securities underwriting) were much stronger than banks pursuing only one of these activities, very few universal banks failed, and securities underwritten by universal banks were less risky. Almost every historian has praised FDR's other major financial "reform," establishing the Securities and Exchange Commission to supervise the registration of new securities and the operation of securities markets, but in terms of rate of return, investors were no better off than they were in the 1920s, before the Securities and Exchange Commission came along.

FDR didn't do much about a contributing factor in the Great Depression, the Smoot-Hawley tariff which throttled trade. Indeed, he raised some tariffs, while Secretary of State Cordell Hull negotiated reciprocal trade agreements which cut tariffs only about 4 percent. FDR approved the dumping of agricultural commodities below cost overseas, which surely aggravated our trading partners.

FDR *tripled* taxes during the Great Depression, from \$1.6 billion in 1933 to \$5.3 billion in 1940. Federal taxes as a percentage of the gross national product jumped from 3.5 percent in 1933 to 6.9 percent in 1940, and taxes skyrocketed during World War II. FDR increased the tax burden with higher personal income taxes, higher corporate income taxes, higher excise taxes, higher estate taxes, and higher gift taxes. He introduced the undistributed profits tax. Ordinary people were hit with higher liquor taxes and Social Security payroll taxes. All these taxes meant there was less capital for businesses to create jobs, and people had less money in their pockets.

In addition, FDR increased the cost and risk of employing people, and so there shouldn't have been any surprise that the unemployment rate remained stubbornly high. Economists Richard K. Vedder and Lowell E. Gallaway, in their 1997 study *Out of Work: Unemployment and Government in Twentieth-Century America*, reported: "New Deal policies (and some Hoover-era policies predating the New Deal) systematically used the power of the state to intervene in labor markets in a manner to raise wages and labor costs, prolonging the misery of the Great Depression, and creating a situation where many people were living in rising prosperity at a time when millions of others were suffering severe deprivation. . . . Of the ten years of unemployment rates over 10 percent during the Depression, fully eight were during the Roosevelt administration (counting 1933 as a Roosevelt year). Vedder and Gallaway estimated that by 1940 unemployment was eight points higher than it would have been in the absence of higher payroll costs imposed by New Deal policies.

Economists Thomas E. Hall and J. David Ferguson reported, "It is difficult to ascertain just how much the New Deal programs had to do with keeping the unemployment rate high, but surely they were important. A combination of fixing farm prices, promoting labor unions, and passing a series of antibusiness tax laws would certainly have had a negative impact on employment. In addition, the uncertainty experienced by the business community as a result of the frequent tax law changes (1932, 1934, 1935, 1936) must have been enormous. Since firms' investment decisions very much depend on being able to plan, an increase in uncertainty tends to reduce investment expenditures. It should not be a surprise that investment as a proportion of output was at low levels during the mid-1930s."

Black people were among the major victims of the New Deal. Large numbers of blacks were unskilled and held entry-level jobs, and when New Deal policies forced wage rates above market levels, hundreds of thousands of these jobs were destroyed. Above-market wage rates encouraged employers to mechanize and in other ways cut total labor costs. Many New Deal policies were framed to benefit northern industries and undermine the position of employers in the South, where so many blacks worked. "New Deal labor policies contributed to a persistent increase in African American unemployment," reported economist David E. Bernstein.

When millions of people had little money, New Deal era policies made practically everything more expensive (the National Industrial Recovery Act), specifically maintained above-market retail prices (the Robinson-Patman Act and the Retail Price Maintenance Act) and above-market airline tickets (Civil Aeronautics Act). Moreover, FDR signed into law the Agricultural Adjustment Act, which led to the destruction of millions of acres of crops and millions of farm animals, while many Americans were hungry.

New Deal agricultural policies provided subsidies based on a farmer's acreage and output, which meant they mainly helped big farmers with the most acreage and output. The New Deal displaced poor sharecroppers and tenant farmers, a large number of whom were black. High farm foreclosure rates persisted during the New Deal, indicating that it did almost nothing for the poorest farmers. Historian Michael A. Bernstein went farther and made a case that New Deal agricultural policies "sacrificed the interests of the marginal and the unrecognized to the welfare of those with greater political and economic power.

The flagship of the New Deal was the National Industrial Recovery Act, which authorized cartel codes restricting output and fixing high prices for just about every conceivable business enterprise, much as medieval guild restrictions had restricted output and fixed prices. That FDR approved contraction was astounding, because the American people had suffered through three years of catastrophic contraction. With the National Industrial Recovery Act, it actually became a crime to increase output or cut prices—a forty-nine-year-old immigrant dry cleaner was jailed for charging 35 cents instead of 40 cents to press a pair of pants.

This wasn't full-scale government control as in the Soviet Union, but it came closer than anybody had thought possible. Although the NIRA was struck down by the Supreme Court in May 1935, the New Deal continued to multiply restrictions on business enterprise. "Perhaps the greatest defect in these limited planning measures," wrote economic historian Ellis W. Hawley, "was their tendency toward restriction, their failure to provide any incentive for expansion when an expanding economy was the crying need of the time.

While FDR authorized the spending of billions for relief and public works projects, a disproportionate amount of this money went not to the poorest states such as the South, but to western states where people were better off, apparently because these were "swing" states which could yield FDR more votes in the next election. The South was already solidly Democratic, so there wasn't much to be gained by buying votes there. It was observed at the time that relief and public works spending seemed to increase during election years. Politicking with relief and public works money got to be so bad that Congress passed the Hatch Act (1939).

The New Deal approached its climax in 1938 as Thurman Arnold, head of the Justice Department's Antitrust Division, began to file about 150 lawsuits against companies employing millions of people. Hawley called this "the most intensive antitrust campaign in American history." Whatever the merits of the government's claims, these lawsuits made it politically more risky for businesses to pursue long-term investments, and private investment remained at an historically low level throughout the New Deal—prolonging the Great Depression.

All the highly publicized relief programs and public works projects couldn't make up for the damage inflicted by New Deal taxes, restrictions, antitrust lawsuits, and the rest. Indeed, the more money the government spent on relief and public works, the more tax revenue it needed, and the more damage done to the economy.

As a cure for the Great Depression, government spending didn't work. In 1933, federal government outlays were $4.5 billion; by 1940 they were $9.4 billion, so FDR more than doubled federal spending, and still unemployment remained stubbornly high. Changes in federal budget deficits didn't correspond with changes in gross domestic product, and in any case the federal budget deficit at its peak (1936) was only 4.4 percent of the gross domestic product, much too small for a likely cure.

The most that could be said in FDR's defense was this, by Donald R. Richberg, former head of the National Recovery Administration: "Although the tremendous expenditures and supports for agriculture and industrial labor that were projected in the Roosevelt administration did not end a huge unemployment problem, they did raise new hopes and inspire new activities among the American people which turned them away for a time at least from even more radical political programs."

FDR had assumed unprecedented arbitrary power supposedly needed to get America out of the Great Depression. Although Democrats controlled Congress, FDR was impatient with American democracy, and he issued an extraordinary number of executive orders—3,728 altogether—which is more than all the executive orders issued by his successors Harry Truman, Dwight D. Eisenhower, John F. Kennedy, Lyndon B. Johnson, Richard M. Nixon, Gerald R. Ford, Jimmy Carter, Ronald Reagan, George H. W. Bush, and Bill Clinton combined. In the name of fairness, FDR saw to it that some individuals were treated much more harshly than others under the federal tax code. NRA codes denied individuals the fundamental liberty to enter the business of their choosing. Compulsory unionism denied individuals the right to work without joining a union. Americans gave up these liberties and more without getting out of the Great Depression, as had been promised. Principal legacies of the New Deal have been a massive expansion of government power and loss of liberty.

FDR's failure to end chronic high unemployment and his increasingly arbitrary tactics were reasons why, after 1936, his political support declined. Republicans gained seats in Congress during the 1938 elections, and they gained more seats in 1940. FDR's own vote totals declined after 1936, and Republican presidential vote totals increased over both those of 1936 and 1932.

FDR didn't make the recovery of private, productive employment his top priority. Along with advisers like Louis Brandeis, Felix Frankfurter, Rexford Tugwell, and Thomas Corcoran, FDR viewed business as the cause of the Great Depression, and he did everything he could to restrict business. His goal was "reform," not recovery. Accordingly, the New Deal taxed money away from the private sector, and government officials, not private individuals, made the spending decisions. New Deal laws determined what kind of people businesses must hire, how much they must be paid, what prices businesses must charge, and it interfered with their ability to raise capital.

The British economist John Maynard Keynes recognized that FDR's priorities were subverting the prospects for ending high unemployment. He wrote FDR a letter which was published in the December 31,1933, issue of the *New York Times*. Keynes warned that "even wise and necessary Reform may, in some respects, impede and complicate Recovery. For it will upset the confidence of the business world and weaken their existing motives to action. . . . I am not clear, looking back over the last nine months, that the order of urgency between measures of Recovery and measures of Reform has been duly observed, or that the latter has not sometimes been mistaken for the former."

Newspaper columnist Walter Lippmann observed that New Deal "reformers" would "rather not have recovery if the revival of private initiative means a resumption of private control in the management of corporate business . . . the essence of the New Deal is the reduction of private corporate control by collective bargaining and labor legislation, on the one side, and by restrictive, competitive and deterrent government action on the other side." The failure of the New Deal seems incredible considering that FDR is widely rated among America's greatest presidents. Moreover, many of the brightest minds of the era were recruited to Washington. FDR, who graduated from Harvard College, filled many of his top positions with graduates of Harvard Law School. They had clerked with the most respected judges of the era. These and other New Dealers were hailed for their compassion and their so-called progressive thinking. They were widely viewed as more noble than the greedy businessmen and reckless speculators who were thought to have brought on the depression. New Dealers wanted to eliminate poverty, abolish child labor, and right other social wrongs. Many New Dealers saw themselves as trying to make the world over. How could such bright, compassionate people have gone so wrong?

This book attempts to explain what went wrong and why. I draw on major findings by economists about the actual effects of the New Deal—how it promoted cartels, imposed confiscatory taxes, made it harder for companies to raise capital, made it more expensive for companies to employ people, bombarded companies with dubious antitrust lawsuits, and relentlessly denounced employers and investors, prolonging high unemployment. Published during the last four decades, these findings have been virtually ignored by pro-New Deal political historians like James MacGregor Burns, Arthur M. Schlesinger Jr., Frank Freidel, William Leuctenburg, and Kenneth S. Davis. In his autobiography, Schlesinger acknowledged that he "was not much interested in economics." It is remarkable how such respected historians, writing about the most important economic event of twentieth-century American history, could disregard the growing economics literature which challenges their views.

Unless we clearly understand the effects of the New Deal, we cannot say we understand it at all—and more important, what the Great Depression experience means for us now. It would be tragic if, in a future recession or depression, policymakers repeated the same mistakes of the New Deal because they knew only the political histories of the time.

I believe the evidence is overwhelming that the Great Depression as we know it was avoidable. Better policies could have prevented the bank failures which accelerated the contraction of the money supply and brought on the Great Depression. The Great Depression could have been over much more quickly—the United States recovered from the severe 1920 depression in about a year. Chronic high unemployment persisted during the 1930s because of a succession of misguided New Deal policies.

A principal lesson for us today is that if economic shocks are followed by sound policies, we can avoid another Great Depression. A government will best promote a speedy business recovery by making recovery the top priority, which means letting people keep more of their money, removing obstacles to productive enterprise, and providing stable money and a political climate where investors feel that it's safe to invest for the future.

The Great Depression was probably the most important economic event in American history, and it seems likely that future historians will acknowledge what economists have reported about the actual effects of the New Deal. In that case, FDR's reputation will decline. . . .

The Great Depression was a government failure, brought on principally by Federal Reserve policies that abruptly cut the money supply; unit banking laws that made thousands of banks more vulnerable to failure; Hoover's tariffs, which throttled trade; Hoover's taxes, which took unprecedented amounts of money out of people's pockets at the worst possible time; and Hoover's other policies, which made it more difficult for the economy to recover. High unemployment lasted as long as it did because of all the New Deal policies that took more money out of people's pockets, disrupted the money supply, restricted production, harassed employers, destroyed jobs, discouraged investment, and subverted economic liberty needed for sustained business recovery.

NO

Roger Biles

A New Deal for the American People

At the close of the Hundred Days, Franklin D. Roosevelt said, "All of the proposals and all of the legislation since the fourth day of March have not been just a collection of haphazard schemes, but rather the orderly component parts of a connected and logical whole." Yet the president later described his approach quite differently. "Take a method and try it. If it fails admit it frankly and try another. But above all, try something." The impetus for New Deal legislation came from a variety of sources, and Roosevelt relied heavily at various times on an ideologically diverse group of aides and allies. His initiatives reflected the contributions of, among others, Robert Wagner, Rexford Tugwell, Raymond Moley, George Norris, Robert LaFollette, Henry Morgenthau, Marriner Eccles, Felix Frankfurter, Henry Wallace, Harry Hopkins, and Eleanor Roosevelt. An initial emphasis on recovery for agriculture and industry gave way within two years to a broader-based program for social reform; entente with the business community yielded to populist rhetoric and a more ambiguous economic program. Roosevelt suffered the opprobrium of both the conservatives, who vilified "that man" in the White House who was leading the country down the sordid road to socialism, and the radicals, who saw the Hyde Park aristocrat as a confidence man peddling piecemeal reform to forestall capitalism's demise. Out of so many contradictory and confusing circumstances, how does one make sense of the five years of legislative reform known as the New Deal? And what has been its impact on a half century of American life?[1]

A better understanding begins with the recognition that little of the New Deal was new, including the use of federal power to effect change. Nor, for all of Roosevelt's famed willingness to experiment, did New Deal programs usually originate from vernal ideas. Governmental aid to increase farmers' income, propounded in the late nineteenth century by the Populists, surfaced in Woodrow Wilson's farm credit acts. The prolonged debates over McNary-Haugenism in the 1920s kept the issue alive, and Herbert Hoover's Agricultural Marketing Act set the stage for further federal involvement. Centralized economic planning, as embodied in the National Industrial Recovery Act, flowed directly from the experiences of Wilson's War Industries Board; not surprisingly, Roosevelt chose Hugh Johnson, a veteran of the board, to head the National Recovery Administration. Well established in England and Germany before the First World War, social insurance appeared in a handful of

From Roger Biles, *A New Deal for the American People* (Northern Illinois University Press, 1991).

states—notably Wisconsin—before the federal government became involved. Similarly, New Deal labor reform took its cues from the path-breaking work of state legislatures. Virtually alone in its originality, compensatory fiscal policy seemed revolutionary in the 1930s. Significantly, however, Roosevelt embraced deficit spending quite late after other disappointing economic policies and never to the extent Keynesian economists advised. Congress and the public supported the New Deal, in part, because of its origins in successful initiatives attempted earlier under different conditions.

Innovative or not, the New Deal clearly failed to restore economic prosperity. As late as 1938 unemployment stood at 19.1 percent and two years later at 14.6 percent. Only the Second World War, which generated massive industrial production, put the majority of the American people back to work. To be sure, partial economic recovery occurred. From a high of 13 million unemployed in 1933, the number under Roosevelt's administration fell to 11.4 million in 1934, 10.6 million in 1935, and 9 million in 1936. Farm income and manufacturing wages also rose, and as limited as these achievements may seem in retrospect, they provided sustenance for millions of people and hope for many more. Yet Roosevelt's resistance to Keynesian formulas for pump priming placed immutable barriers in the way of recovery that only war could demolish. At a time calling for drastic inflationary methods, Roosevelt introduced programs effecting the opposite result. The NRA restricted production, elevated prices, and reduced purchasing power, all of which were deflationary in effect. The Social Security Act's payroll taxes took money from consumers and out of circulation. The federal government's $4.43 billion deficit in fiscal year 1936, impressive as it seemed, was not so much greater than Hoover's $2.6 billion shortfall during his last year in office. As economist Robert Lekachman noted, "The 'great spender' was in his heart a true descendant of thrifty Dutch Calvinist forebears." It is not certain that the application of Keynesian formulas would have sufficed by the mid-1930s to restore prosperity, but the president's cautious deflationary policies clearly retarded recovery.[2]

Although New Deal economic policies came up short in the 1930s, they implanted several "stabilizers" that have been more successful in averting another such depression. The Securities and Exchange Act of 1934 established government supervision of the stock market, and the Wheeler-Rayburn Act allowed the Securities and Exchange Commission to do the same with public utilities. Severely embroiled in controversy when adopted, these measures have become mainstays of the American financial system. The Glass-Steagall Banking Act forced the separation of commercial and investment banking and broadened the powers of the Federal Reserve Board to change interest rates and limit loans for speculation. The creation of the Federal Deposit Insurance Corporation (FDIC) increased government supervision of state banks and significantly lowered the number of bank failures. Such safeguards restored confidence in the discredited banking system and established a firm economic foundation that performed well for decades thereafter.

The New Deal was also responsible for numerous other notable changes in American life. Section 7(a) of the NIRA, the Wagner Act, and the Fair Labor Standards Act transformed the relationship between workers and business and breathed life into a troubled labor movement on the verge of total extinction. In the space of a decade government laws eliminated sweatshops, severely curtailed child labor, and established enforceable standards for hours, wages and working conditions. Further, federal action eliminated the vast majority of company towns in such industries as coal mining. Although Robert Wagner and Frances Perkins dragged Roosevelt into labor's corner, the New Deal made the unions a dynamic force in American society. Moreover, as Nelson Lichtenstein has noted, "by giving so much of the working class an institutional voice, the union movement provided one of the main political bulwarks of the Roosevelt Democratic party and became part of the social bedrock in which the New Deal welfare state was anchored."[3]

Roosevelt's avowed goal of "cradle-to-grave" security for the American people proved elusive, but his administration achieved unprecedented advances in the field of social welfare. In 1938 the president told Congress: "Government has a final responsibility for the well-being of its citizenship. If private co-operative endeavor fails to provide work for willing hands and relief for the unfortunate, those suffering hardship from no fault of their own have a right to call upon the Government for aid; and a government worthy of its name must make fitting response." The New Deal's safety net included low-cost housing; old-age pensions; unemployment insurance; and aid for dependent mothers and children, the disabled, the blind, and public health services. Sometimes disappointing because of limiting eligibility requirements and low benefit levels, these social welfare programs nevertheless firmly established the principle that the government had an obligation to assist the needy. As one scholar wrote of the New Deal, "More progress was made in public welfare and relief than in the three hundred years after this country was first settled."[4]

More and more government programs, inevitably resulting in an enlarged administrative apparatus and requiring additional revenue, added up to a much greater role for the national government in American life. Coming at a time when the only Washington bureaucracy most of the people encountered with any frequency was the U.S. Postal Service, the change seemed all the more remarkable. Although many New Deal programs were temporary emergency measures, others lingered long after the return of prosperity. Suddenly, the national government was supporting farmers, monitoring the economy, operating a welfare system, subsidizing housing, adjudicating labor disputes, managing natural resources, and providing electricity to a growing number of consumers. "What Roosevelt did in a period of a little over 12 years was to change the form of government," argued journalist Richard L. Strout. "Washington had been largely run by big business, by Wall Street. He brought the government to Washington." Not surprisingly, popular attitudes toward government also changed. No longer willing to accept economic deprivation and social dislocation as the vagaries of an uncertain existence, Americans tolerated—indeed, came to expect—the national government's involvement in the problems of everyday life. No longer did "government" mean just "city hall."[5]

The operation of the national government changed as well. For one thing, Roosevelt's strong leadership expanded presidential power, contributing to what historian Arthur Schlesinger, Jr., called the "imperial presidency." Whereas

Americans had in previous years instinctively looked first to Capitol Hill, after Roosevelt the White House took center stage in Washington. At the same time, Congress and the president looked at the nation differently. Traditionally attentive only to one group (big business), policymakers in Washington began responding to other constituencies such as labor, farmers, the unemployed, the aged, and to a lesser extent, women, blacks, and other disadvantaged groups. This new "broker state" became more accessible and acted on a growing number of problems, but equity did not always result. The ablest, richest, and most experienced groups fared best during the New Deal. NRA codes favored big business, and AAA benefits aided large landholders; blacks received relief and government jobs but not to the extent their circumstances merited. The long-term result, according to historian John Braeman, has been "a balkanized political system in which private interests scramble, largely successfully, to harness governmental authority and/or draw upon the public treasury to advance their private agendas."[6]

Another legacy of the New Deal has been the Roosevelt revolution in politics. Urbanization and immigration changed the American electorate, and a new generation of voters who resided in the cities during the Great Depression opted for Franklin D. Roosevelt and his party. Before the 1930s the Democrats of the northern big-city machines and the solid South uneasily coexisted and surrendered primacy to the unified Republican party. The New Deal coalition that elected Roosevelt united behind common economic interests. Both urban northerners and rural southerners, as well as blacks, women, and ethnic immigrants, found common cause in government action to shield them from an economic system gone haywire. By the end of the decade the increasing importance of the urban North in the Democratic party had already become apparent. After the economy recovered from the disastrous depression, members of the Roosevelt coalition shared fewer compelling interests. Beginning in the 1960s, tensions mounted within the party as such issues as race, patriotism, and abortion loomed larger. Even so, the Roosevelt coalition retained enough commitment to New Deal principles to keep the Democrats the nation's majority party into the 1980s.[7]

Yet for all the alterations in politics, government, and the economy, the New Deal fell far short of a revolution. The two-party system survived intact, and neither fascism, which attracted so many followers in European states suffering from the same international depression, nor communism attracted much of a following in the United States. Vital government institutions functioned without interruption and if the balance of powers shifted, the national branches of government maintained an essential equilibrium. The economy remained capitalistic; free enterprise and private ownership, not socialism, emerged from the 1930s. A limited welfare state changed the meld of the public and private but left them separate. Roosevelt could be likened to the British conservative Edmund Burke, who advocated measured change to offset drastic alterations—"reform to preserve." The New Deal's great achievement was the application of just enough change to preserve the American political economy.

Indications of Roosevelt's restraint emerged from the very beginning of the New Deal. Rather than assume extraordinary executive powers as Abraham Lincoln had done in the 1861 crisis, the president called Congress into special session. Whatever changes ensued would come through normal governmental activity. Roosevelt declined to assume direct control of the economy, leaving the nation's resources in the hands of private enterprise. Resisting the blandishments of radicals calling for the nationalization of the banks, he provided the means for their rehabilitation and ignored the call for national health insurance and federal contributions to Social Security retirement benefits. The creation of such regulatory agencies as the SEC confirmed his intention to revitalize rather than remake economic institutions. Repeatedly during his presidency Roosevelt responded to congressional pressure to enact bolder reforms, as in the case of the National Labor Relations Act, the Wagner-Steagall (Housing Act, and the FDIC. The administration forwarded the NIRA only after Senator Hugo Black's recovery bill mandating 30-hour workweeks seemed on the verge of passage.

As impressive as New Deal relief and social welfare programs were, they never went as far as conditions demanded or many liberals recommended. Fluctuating congressional appropriations, oscillating economic conditions, and Roosevelt's own hesitancy to do too much violence to the federal budget left Harry Hopkins, Harold Ickes, and others only partially equipped to meet the staggering need. The president justified the creation of the costly WPA in 1935 by "ending this business of relief." Unskilled workers, who constituted the greatest number of WPA employees, obtained but 60 to 80 percent of the minimal family income as determined by the government. Roosevelt and Hopkins continued to emphasize work at less than existing wage scales so that the WPA or PWA never competed with free labor, and they allowed local authorities to modify pay rates. They also continued to make the critical distinction between the "deserving" and "undeserving" poor, making sure that government aided only the former. The New Deal never challenged the values underlying this distinction, instead seeking to provide for the growing number of "deserving" poor created by the Great Depression. Government assumed an expanded role in caring for the disadvantaged, but not at variance with existing societal norms regarding social welfare.

The New Deal effected no substantial redistribution of income. The Wealth Tax Act of 1935 (the famous soak-the-rich tax) produced scant revenue and affected very few taxpayers. Tax alterations in 1936 and 1937 imposed no additional burdens on the rich; the 1938 and 1939 tax laws actually removed a few. By the end of the 1930s less than 5 percent of Americans paid income taxes, and the share of taxes taken from personal and corporate income levies fell below the amount raised in the 1920s. The great change in American taxation policy came during World War II, when the number of income tax payers grew to 74 percent of the population. In 1942 Treasury Secretary Henry Morgenthau noted that "for the first time in our history, the income tax is becoming a people's tax." This the New Deal declined to do.[8]

Finally, the increased importance of the national government exerted remarkably little influence on local institutions. The New Deal seldom dictated and almost always deferred to state and local governments—encouraging, cajoling, bargaining, and wheedling to bring parochial interests in line with national objectives. As Harry Hopkins discovered, governors and mayors angled to obtain as many federal dollars as possible for their constituents but with no strings attached. Community control and local autonomy, conditions thought to be central to American democracy, remained strong, and Roosevelt understood the need for firm ties with politicians at all levels. In his study of the New Deal's impact on federalism, James T. Patterson concludes: "For all the supposed power of the New Deal, it was unable to impose all its guidelines on the autonomous forty-eight states. . . . What could the Roosevelt administration have done to ensure a more profound and lasting impression on state policy and politics? Very little."[9]

Liberal New Dealers longed for more sweeping change and lamented their inability to goad the president into additional action. They envisioned a wholesale purge of the Democratic party and the creation of a new organization embodying fully the principles of liberalism. They could not abide Roosevelt's toleration of the political conservatives and unethical bosses who composed part of the New Deal coalition. They sought racial equality, constraints upon the southern landholding class, and federal intrusion to curb the power of urban real estate interests on behalf of the inveterate poor. Yet to do these things would be to attempt changes well beyond the desires of most Americans. People pursuing remunerative jobs and the economic security of the middle class approved of government aiding the victims of an unfortunate economic crisis but had no interest in an economic system that would limit opportunity. The fear that the New Deal would lead to such thoroughgoing change explains the seemingly irrational hatred of Roosevelt by the economic elite. But, as historian Barry Karl has noted, "it was characteristic of Roosevelt's presidency that he never went as far as his detractors feared or his followers hoped."[10]

The New Deal achieved much that was good and left much undone. Roosevelt's programs were defined by the confluence of forces that circumscribed his admittedly limited reform agenda—hostile judiciary; powerful congressional opponents, some of whom entered into alliances of convenience with New Dealers and some of whom awaited the opportunity to build on their opposition; the political impotence of much of the populace; the pugnacious independence of local and state authorities; the strength of people's attachment to traditional values and institutions; and the basic conservatism of American culture. Obeisance to local custom and the decision to avoid tampering with the fabric of American society allowed much injustice to survive while shortchanging blacks, women, small farmers, and the "unworthy" poor. Those who criticized Franklin Roosevelt for an unwillingness to challenge racial, economic, and gender inequality misunderstood either the nature of his electoral mandate or the difference between reform and revolution—or both.

If the New Deal preserved more than it changed, that is understandable in a society whose people have consistently chosen freedom over equality. Americans traditionally have eschewed expanded government, no matter how efficiently managed or honestly administered, that imposed restraints on personal success—even though such limitations redressed legitimate grievances or righted imbalances. Parity, most Americans believed, should not be purchased with the loss of liberty. But although the American dream has always entailed individual success with a minimum of state interference, the profound shock of capitalism's near demise in the 1930s undermined numerous previously unquestioned beliefs. The inability of capitalism's "invisible hand" to stabilize the market and the failure of the private sector to restore prosperity enhanced the consideration of stronger executive leadership and centralized planning. Yet with the collapse of democratic governments and their replacement by totalitarian regimes, Americans were keenly sensitive to any threats to liberty. New Deal programs, frequently path breaking in their delivery of federal resources outside normal channels, also retained a strong commitment to local government and community control while promising only temporary disruptions prior to the return of economic stability. Reconciling the necessary authority at the federal level to meet nationwide crises with the local autonomy desirable to safeguard freedom has always been one of the salient challenges to American democracy. Even after New Deal refinements, the search for the proper balance continues.

Notes

1. Otis L. Graham Jr., and Meghan Robinson Wander, eds., *Franklin D. Roosevelt, His Life and Times: An Encyclopedic View* (Boston: G. K. Hall, 1985), p. 285 (first quotation); Harvard Sitkoff, "Introduction," in Sitkoff, *Fifty Years Later*, p. 5 (second quotation).
2. Richard S. Kirkendall, "The New Deal as Watershed: The Recent Literature," *Journal of American History* 54 (March 1968), p. 847 (quotation).
3. Graham and Wander, *Franklin D. Roosevelt, His Life and Times*, p. 228 (quotation).
4. Leuchtenburg, "The Achievement of the New Deal," p. 220 (first quotation); Patterson, *America's Struggle against Poverty, 1900–1980*, p. 56 (second quotation).
5. Louchheim, *The Making of the New Deal: The Insiders Speak*, p. 15 (quotation).
6. John Braeman, "The New Deal: The Collapse of the Liberal Consensus," *Canadian Review of American Studies* 20 (Summer 1989), p. 77.
7. David Burner, *The Politics of Provincialism: The Democratic Party in Transition, 1918–1932* (New York: Alfred A. Knopf, 1968).
8. Mark Leff, *The Limits of Symbolic Reform*, p. 287 (quotation).
9. James T. Patterson, *The New Deal and the States: Federalism in Transition* (Princeton: Princeton University Press, 1969), p. 202.
10. Barry D. Karl, *The Uneasy State: The United States from 1915 to 1945* (Chicago: University of Chicago Press, 1983), p. 124.