



CONFRONT THE ISSUE

THE NEW DEAL: DID IT WORK?

TOUCH TO BEGIN

CONFRONT THE ISSUE
**THE NEW DEAL:
DID IT WORK?**

Did the New Deal help to end the Great Depression, or did it prolong it? Did it go too far in regulating financial markets and creating a social safety net for Americans? Or should it have done more?

What is the proper role of the federal government in the nation's economy?

Today, fundamental economic questions raised during the New Deal years remain at the center of our political life. Historians, economists and political commentators agree that FDR profoundly changed America's government and economy. But they disagree—often passionately—about his legacy.

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excerpts from the
historical debate.

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The distinction of the New Deal lay precisely in its refusal to approach social problems in terms of ideology. Its strength lay in its preference of existence to essence. The great central source of its energy was the instinctive contempt of practical, energetic, and compassionate people for dogmatic absolutes. Refusing to be intimidated by abstractions or to be overawed by ideology, the New Dealers responded by doing things....Roosevelt hoped to steer between the extreme chaos and tyranny by moving always, in his phrase, “slightly to the left of center.” “Unrestrained individualism” had proved a failure; yet “any paternalistic system which tries to provide for security for everyone from above only calls for an impossible task and a regimentation utterly uncongenial to the spirit of our people.”...Roosevelt had no illusions about revolution....As Roosevelt saw it, he was safeguarding the constitutional system by carrying through reforms long overdue....He believed in government as an instrument for effecting economic change....He did not regard successful businessmen as infallible repositories of economic wisdom. He regarded the nation as an estate to be improved for those who would eventually inherit it...His determination was to keep options open within the general frame of a humanized democracy; and his belief was that the very diversity of systems strengthened the basis for freedom....The American people, in recording in 1936 so astonishing a vote of confidence in the New Deal, were by no means endorsing everything that had taken place in the tumultuous years since March 4, 1933. But they were voting unmistakably for the capacity of a representative democracy under strong leadership to produce energetic, resourceful, and free government in the face of economic holocaust. And their vote came at a time when, throughout the west, faith in government by the people—faith in a free society itself—was flickering and fading....[Roosevelt] well knew that more was at stake than America—that the challenge of achieving economic security within a framework of freedom offered civilized society a decisive test....He was apparently succeeding; and people could start to believe again in the free state and its capacity to solve problems of economic stability and social justice.

Arthur M. Schlesinger, Jr., The Age of Roosevelt: The Politics of Upheaval (Houghton Mifflin, 1960), 647-651, 654-656



The Age of
R O O S E V E L T

THE
Politics
of
Uppheaval



Arthur M. Schlesinger, Jr.

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The early New Deal made important changes in the American economic setup, but not drastic ones. Roosevelt tried to work within the existing power system, not to transform it. The Emergency Banking Act and the Glass-Steagall Act, despite the bankers' complaints about deposit insurance, greatly strengthened the nation's private banking system. The NRA allowed big business to protect their profits through 'self-government.' The AAA made payments to large landholders and, with Roosevelt's blessing, rejected attempts to alter the rural power structure. The Home Owners' Loan Corporation plainly helped many small homeowners, but this certainly was no attack on the system: it saved mortgage holders as well as homeowners. The federal relief effort, the CWA, PWA, and CCC were all decided departures, but none of them posed a serious threat to existing power relationships. The SEC was not liked by many on Wall Street, but they soon found they could live with it comfortably enough. The TVA was perhaps the biggest "threat" to the established order, in that it had the potential to demonstrate that planning and community cooperation could work and that a government-owned business could compete successfully with private enterprise. But to fault Roosevelt for missing his chance to bring about drastic changes in the American economic system is to overlook the restraints upon him (even assuming he wanted such changes, which in most cases he did not). A time of economic collapse, such as 1933, might seem just the time to introduce radical change. It is not. People may be willing to try new ideas; much evidence suggests that a majority was ready for bold new experiments in 1933. But any move toward either socialization or truly effective antitrust action would have been resisted vehemently by business. This would have made the economic collapse even worse in the short run (which might well not be very short). The fact is that, bad as things were in early 1933, they could get worse, and drastic change was likely to bring about that undesirable end. Roosevelt, to be sure, wanted no such fundamental alteration. He sought recovery and more limited reform (emphasis in original). Two years after his election he had failed to achieve enough of either, and pressures on him to move further to the left began to mount.

Robert S. McElwaine, The Great Depression: America, 1929-1941 (New York: Random House, 1984, 1993), 168-169

AMERICA
1929-1941

The Great Depression

ROBERT S.
MCELVAINE

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...[T]he New Deal did plenty to prolong high unemployment. New Deal policies were dubious when considered from the standpoint of their effects. After Americans had suffered through a catastrophic contraction for three years (1929-1933), FDR supported policies like the National Industrial Recovery Act that promoted further contraction. His executive orders helped enforce higher consumer prices when millions of Americans were unemployed and need bargains. FDR approved the destruction of food when people were hungry. FDR signed into law higher taxes for everybody, so consumers had less money to spend, and employers had less money with which to hire people—during the worst depression in American history.

Jim Powell, FDR's Folly: How Roosevelt and His New Deal Prolonged the Great Depression (Crown Forum, 2003), 263-264



FDR's FOLLY

How Roosevelt
and His New Deal
Prolonged the
Great Depression

JIM POWELL

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...[T]he deepest problem was the intervention, the lack of faith in the market place. Government management of the late 1920s and 1930s hurt the economy. Both Hoover and Roosevelt misstepped in a number of ways.... Roosevelt's errors had a different quality but were equally devastating. He created regulatory, aid, and relief agencies based on the premise that recovery could be achieved only through a large military-style effort. Some of these were useful—the financial institutions he established upon entering office. Some were inspiring—the Civilian Conservation Corps, for example.... Other new institutions, such as the National Recovery Administration, did damage.... Where the private sector could help to bring the economy back—in the arena of utilities, for example—Roosevelt and his New Dealers often suppressed it.... [B]usinesses decided to wait Roosevelt out, hold on to their cash, and invest in future years. Yet Roosevelt retaliated by introducing a tax—the undistributed profits tax—to press the money out of them. Such forays prevented recovery and took the country into the depression within the Depression of 1937 and 1938.... One of the most famous Roosevelt phrases in history, almost as famous as “fear itself,” was Roosevelt's boast that he would promulgate “bold, persistent experimentation.” But Roosevelt's commitment to experimentation itself created fear.... The trouble, however, was not merely the new policies that were implemented but also the threat of additional, unknown, policies. Fear froze the economy, but that uncertainty itself might have a cost was something the young experimenters simply did not consider.... From 1929 to 1940, from Hoover to Roosevelt, government intervention helped to make the Depression Great. The period was not one of a moral battle between a force for good—the Roosevelt presidency—and forces for evil, those who opposed Roosevelt. It was a period of a power struggle between two sectors of the economy, both containing a mix of evil and virtue. The public sector and the private sector competed relentlessly for advantage.

Amity Shlaes, The Forgotten Man: A New History of the Great Depression (Harper Collins, 2007), 7-10

A NEW HISTORY OF THE GREAT DEPRESSION

the forgotten man



AMITY SHLAES

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To lament the New Deal's deficiencies or to celebrate its achievements has only limited utility. Instead, what it needed is an examination of the relationship between reforms instituted by the New Deal and the longer-term developments of American society....The New Deal was not static, it improved over time as deficiencies in existing programmes were exposed and new problems identified....Seen through the lens of [World War II], the New Deal's overall function appears as a holding operation for American society: a series of measures that enabled the people to survive the Depression and to hold on until World War II opened up new opportunities. Industrial recovery programmes checked the deflationary spiral and yielded modest recovery that enabled businessmen to survive to enjoy dramatic war-time profits. Relief and welfare measures allowed the unemployed to struggle through until the war brought them jobs. Farm programmes enabled an underemployed labour force to stay on the land until the war created the urban demand which would absorb the surplus farm production and the industrial jobs which would absorb the surplus population. The plight of the poorest one third of the nation largely remained the New Deal's unfinished business....In the end, the New Deal was essentially a holding operation for American society because in the democratic, capitalist United States that was what most Americans wanted it to be.

Anthony Badger, The New Deal: The Depression Years, 1933-1940 (Ivan R. Dee, 1989), 301, 305, 311-312

"A superb one-volume synthesis of the
Roosevelt years."—Dan T. Carter

ANTHONY J. BADGER
THE NEW DEAL



The Depression Years, 1933-1940

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The New Deal left many problems unresolved and even created some perplexing new ones. It never demonstrated that it could achieve prosperity in peacetime....It enhanced the power of interest groups who claimed to speak for millions, but sometimes represented only a small minority. It did not evolve a way to protect people who had no such spokesmen, nor an acceptable method for disciplining the interest groups....The New Deal achieved a more just society by recognizing groups which had been largely unrepresented—staple farmers, industrial workers, particular ethnic groups, and the intellectual-administrative class. Yet this was still a halfway revolution; it swelled the ranks of the bourgeoisie but left many Americans—sharecroppers, slum dwellers, most Negroes—outside the new equilibrium. Some of these omissions were to be promptly remedied....Other shortcomings are understandable. The havoc that had been done before Roosevelt took office was so great that even the unprecedented measures of the New Deal did not suffice to repair the damage. Moreover, much was still to be learned, and it was during the Roosevelt years that the country was schooled in how to avert another major depression....When recovery did come [during World War II], it was much more soundly based because of the adoption of the New Deal program.

William E. Leuchtenburg, Franklin D. Roosevelt and the New Deal, 1932-1940 (Harper & Row, 1963), 346-347

FRANKLIN D.
ROOSEVELT
AND THE
NEW DEAL

1932 ★ 1940



BY WILLIAM E. LEUCHTENBURG

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[T]he New Deal erected an institutional scaffolding designed to provide unprecedented stability and predictability for the American economy. In time, that edifice would serve as the latticework on which the postwar economy grew....[W]hat needs emphasis, in the final accounting, is not what the New Deal failed to do but how it managed to do so much in the uniquely malleable moment of the mid-1930s. That brief span of years, it is now clear, constituted one of only a handful of episodes in American history when substantial and lasting social change has occurred—when the country was, in measurable degree, remade....For all of his alleged inscrutability, Franklin Roosevelt’s social vision was clear enough. “We are going to make a country,” he once said to Frances Perkins, “in which no one is left out.” In that unadorned sentence Roosevelt spoke volumes about the New Deal’s lasting historical meaning. Like his rambling, comfortable, and unpretentious old home on the bluff above the Hudson River, Roosevelt’s New Deal was a welcoming mansion of many rooms, a place where millions of his fellow citizens could find at last a measure of the security that the patrician Roosevelts enjoyed as their birthright.

David M. Kennedy, Freedom From Fear: The American People in Depression and War, 1929-1945 (New York: Oxford University Press, 1999), pages 375-378

The Oxford History of the United States

DAVID M. KENNEDY

FREEDOM FROM FEAR

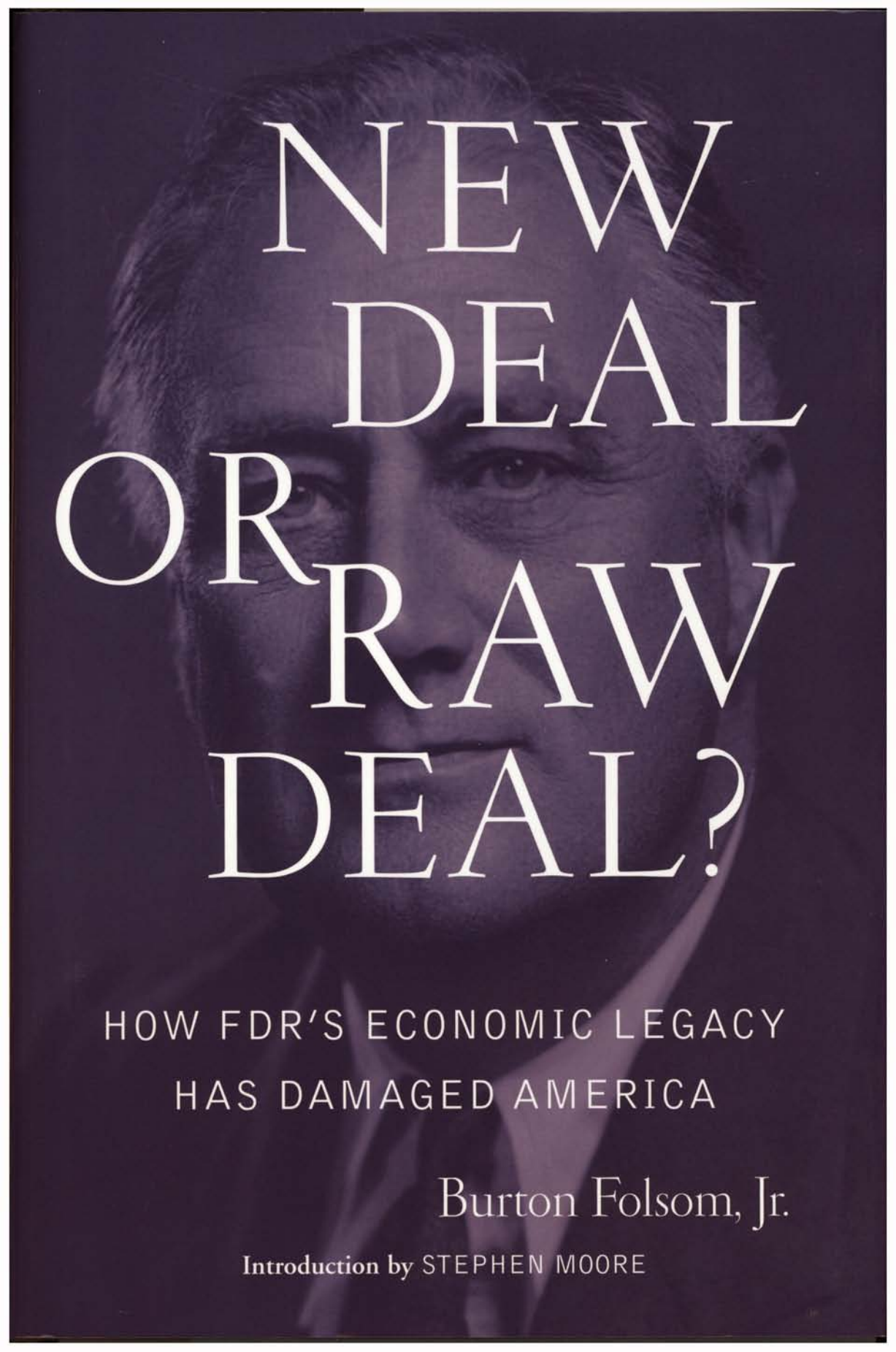
The American People
in Depression and War,
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The greatest and most enduring economic myth of the twentieth century is the idea that Franklin Roosevelt's New Deal pulled America out of the Great Depression....The most damning indictment of FDR's New Deal agenda is that it did not do what it set out to do: end the Great Depression. Ask anyone over eighty, and he or she will probably say that FDR cared about the working man and gave the country hope. Maybe so, but that is not a sound economic plan....Empathy is all well and good, but it does not create jobs or businesses or wealth....The top tax rate under Roosevelt soared to almost 80 percent and then 90 percent, thus smothering any possibility of recovery....Even the programs that are said to be the glittering examples of public policy success don't shine so brightly any longer. Social Security was built on a Ponzi scheme where future generations would pay for the costs of the expansive benefits paid to earlier ones. "Pay as you go" worked like a dream when there were forty workers per retired person, but now looks like an Enron accounting fraud to today's young workers—every two of whom will eventually subsidize every one retiree....The irony of the New Deal is that this agenda, based on good intentions to help the poor and unemployed, caused more human suffering and deprivation in America than any other set of ideas in the twentieth century.

Stephen Moore, Introduction to Burton W. Folsom, Jr., New Deal or Raw Deal: How FDR's Economic Legacy has Damaged America (Threshold Editions, 2008), xii-xvi



NEW
DEAL
OR
RAW
DEAL?

HOW FDR'S ECONOMIC LEGACY
HAS DAMAGED AMERICA

Burton Folsom, Jr.

Introduction by STEPHEN MOORE

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[T]o argue that the shortcomings of the New Deal undermine FDR's achievements reflects a narrow view....The result of FDR's efforts was a new social contract that has informally bound his successors to confront major domestic and international problems, rather than leave them entirely to the marketplace or to other nations. For all their anti-governmental rhetoric, even the most conservative of his successors, Ronald Reagan and George W. Bush, presided over an expansion of government and could never fully repeal the obligations FDR began redefining in 1933. The greatest of those obligations remains to the less fortunate, an idea that cleaves American politics to this day. "The test of our progress is not whether we add to the abundance of those who have much," FDR said in his second Inaugural Address, perhaps his clearest statement of principle in domestic affairs. "It is whether we provide enough for those who have too little."...[W]hen hope was a dying ember, he succeeded brilliantly in restoring faith in democratic institutions and establishing a legacy of innovation.

Jonathan Alter, The Defining Moment: FDR's Hundred Days and the Triumph of Hope (Simon & Schuster, 2006), 332-333



THE
DEFINING MOMENT

FDR'S HUNDRED DAYS AND THE TRIUMPH OF HOPE

JONATHAN ALTER

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The explosion of new legislation during the Hundred Days transformed vast swaths of American life, from banking to agriculture to public welfare....The Hundred Days' greatest impact, though, was one of national philosophy. In just over three months, the federal government changed from being a nearly passive observer of its citizens' problems to an active force in solving them. From this point on, it would be a matter of concern to Washington when farmers were unable to support themselves, when depositors lost their life savings in failed banks, and when parents could not afford to feed their children. The relationship between the American people and their government would never be the same again.

Adam Cohen, Nothing to Fear: FDR's Inner Circle and the Hundred Days that Created Modern America (The Penguin Press, 2009), 284-285



NOTHING TO FEAR

FDR'S INNER CIRCLE AND THE HUNDRED DAYS
THAT CREATED MODERN AMERICA

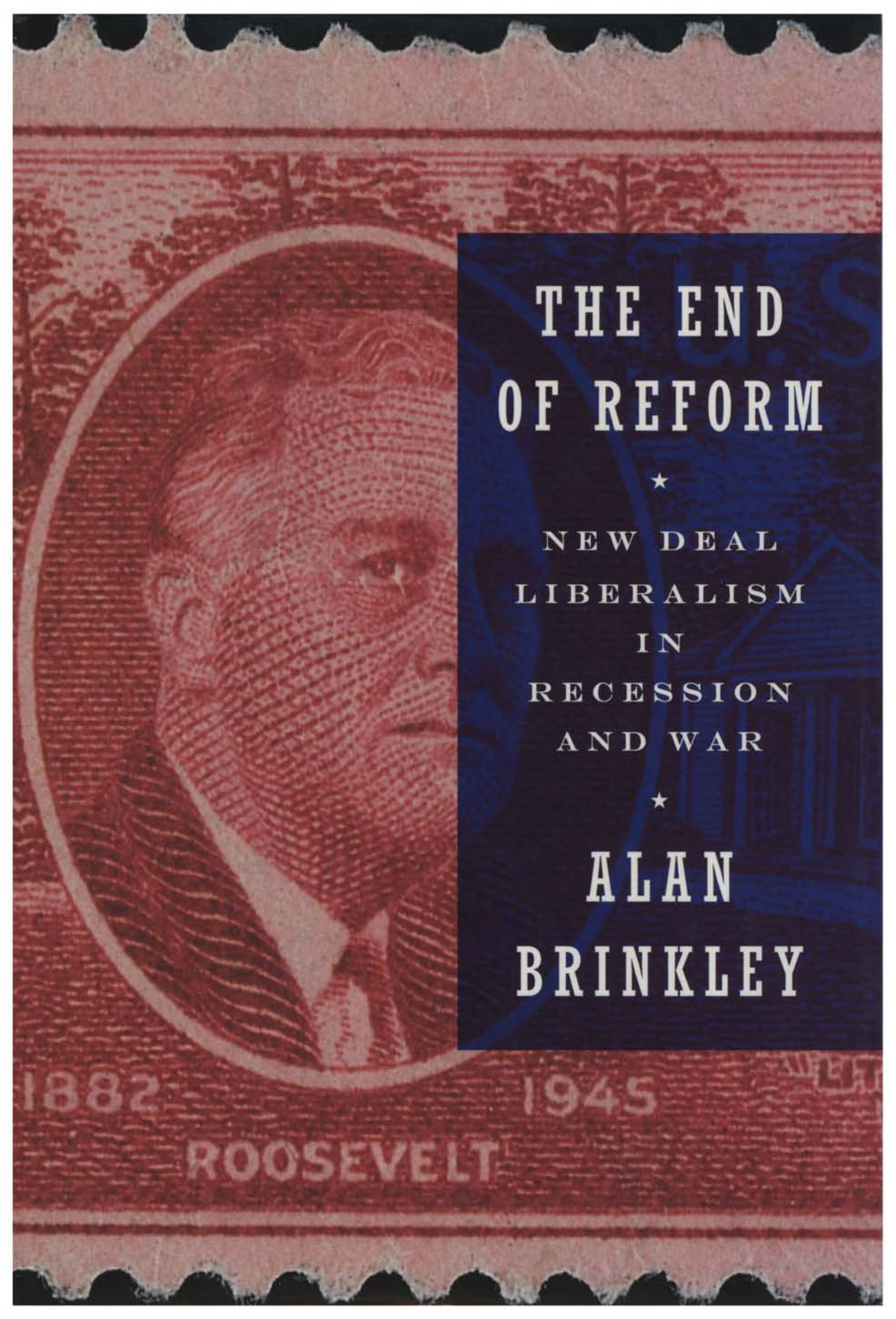
ADAM COHEN

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[W]hat may have been the New Deal's single most important contribution to the creation of the modern welfare state—the Social Security System—was, in the 1930s at least, also one of its most deflationary achievements. In the last years of the Depression, the taxes financing the Social Security System were taking far more purchasing power out of the economy than the system's benefits (most of which were as yet reaching relatively few people) were putting back in. In 1936 and 1937, the system removed from the economy at least \$2 billion more than it contributed. "The law as it now stands operates unnecessarily to accentuate any tendency otherwise present toward deflation," the economist Alvin Hansen wrote in 1938. "Plainly, the Act operates to reduce the total consumption expenditures of the general mass of the population." And Social Security was not alone in causing such reductions. Other regressive taxes (many levied by state governments) helped offset the inflationary effects of the New Deal's agricultural and jobs programs. The New Deal was promoting recovery through deficit financing, but haltingly, penuriously, and largely inadvertently, as the unintended result of policies designed to achieve other ends.

Alan Brinkley, The End of Reform: New Deal Liberalism in Recession and War (Vintage Books, 1996), 73



**THE END
OF REFORM**



**NEW DEAL
LIBERALISM
IN
RECESSION
AND WAR**



**ALAN
BRINKLEY**

1882

1945

ROOSEVELT

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The New Deal initiated the development of new economic principles and new social and political institutions to put them into practice. This process required improvisation, for the causes of collapse were still being diagnosed while the first remedies were being applied. But the remedies could not wait for a final diagnosis: people had to be fed and sheltered and found employment, the economic system had to be protected from whatever diseases of greed and imprudence had been identified, and the transition toward a governmental structure suited to the new world had to begin. The New Deal was a work in progress from its beginning to its end, when it yielded to preparations for war. Its principles and institutions still are works in progress, the debate over them ongoing. What is surely beyond debate is that the Great Depression marked an upheaval in American history, and the New Deal a turning point in the relationship between government and the governed. Its legacy lives on: that shining ideal that American government should serve the people, all the people, and that none should be forgotten.

Michael Hiltzik, The New Deal: A Modern History (Free Press, 2011), 432



THE NEW DEAL

A MODERN HISTORY

MICHAEL HILTZIK

AUTHOR OF *COLOSSUS*