THE NEW DEAL

Discuss the intellectual and philosophical foundation of the New Deal. In your discussion show the patterns of the New Deal and give an appraisal of its significance and its permanent contributions.

I. **Concept number one:** Discuss the intellectual and philosophical foundation of the New Deal.

   A. "A New Deal for the American People." This was a phrase written and used for Franklin D. Roosevelt's acceptance speech at the Democratic National Convention in 1932. It was an attempt to put a label on the changes he would make in a depression-stricken America; changes away from the "Old Deal" and "Old Capitalism."

   B. The old capitalistic system with its emphasis upon social Darwinism, laissez faire, and rugged individualism had lost faith with the American people. The "Old Deal" was gone, where businessmen took from the environment what they could get while the government stood by and watched and expected the individual to adjust to the results.

   C. The depression of the 1930's raised some serious questions about the viability of the American economy. After nearly a century of rather spectacular, although uneven, economic growth which had begun about 1840, economic development slowed down and came to a sudden halt after 1929.

1. The 1929 level of capital investment was not reached again until 1941.

2. The per capita income in dollars of purchasing power in 1929 dropped and did not pass the 1929 level until 1940.

3. About 25% of the labor force was unemployed in 1932-33 and the nagging problem of unemployment continued until World War II.

<p>|| ESTIMATED UNEMPLOYMENT IN THE UNITED STATES ||
|-----------------------------------------------|
| # OF PERSONS AS A PERCENTAGE OF |</p>
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<td>1930 4,340,000 8.7</td>
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<td>1933 12,830,000 24.9</td>
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<td>1936 9,030,000 16.9</td>
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D. Business leaders and the capitalistic system became discredited not merely because they were judged responsible for the depression, but because:

1. Both businessmen and the capitalistic system proved unable to restore prosperity.

2. Businessmen proved themselves derelict in duty and guilty of grave malpractices.

3. The public learned there was a great deal of corruption associated with banking houses and the stock exchange.
   a. The public learned with astonishment the dignified House of Morgan kept a preferred list of influential public men to whom it sold securities below the market price.
   b. It was also discovered the great National City Bank of New York made $2.5 million of stockholders' money available to bank officers for speculation, without interest or security.

E. This not only led to dissatisfaction with business leadership but led to a crisis in confidence with the system of Western capitalism and thus democracy. Hence, one of the key underlying questions of the depression was could democracy in general and capitalism in particular survive not only the depression in this country, but in the World as well. One of the keys to understanding the significance of Roosevelt and the New Deal is to understand this crisis in confidence not only in the systems of capitalism and democracy BUT in how the people felt about themselves.

F. Any judgment of the New Deal will depend upon the criteria used. Judged on the basis of its economic success, the New Deal, at best, was only partially successful. However, based upon its use of optimistic psychology the New Deal was a great success.

1. The profound crisis of 1929 put the right man at the right place at the right time, in the form of Franklin D. Roosevelt.
2. In mid-March of 1933, Roosevelt held Congress in session and launched a program that would lead to 15 major laws in a hectic 100 days. FROM THE VERY FIRST, (1) Congress and (2) pressure groups were to shape the New Deal's political and economic contours (3) although Roosevelt and his advisers did contributed greatly.

3. Roosevelt explained the evolving New Deal as follows: "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 of a connected and logical whole."

4. Roosevelt was not quite correct, but the UNIFYING ELEMENT was Roosevelt himself presiding over everything, even if he did not have total control. He acted as HEAD CHEERLEADER, radiating confidence and encouraging the masses. Hence the greatest benefit offered by Roosevelt and the New Deal was HOPE for the future and FAITH in Roosevelt, democracy, and capitalism. The New Deal combined structural economic innovation with optimistic psychology.

5. Structurally, the New Deal pursued three strategic directions (Relief, Recovery, and Reform). Roosevelt's intentions were apparently very broad and loose and at times he permitted and encouraged contradictory lines of policy. ROOSEVELT WAS CONFIDENT THE BROAD DIRECTION WAS CORRECT AND LIKE A QUARTERBACK, HE COULD TRY ANOTHER PLAY IF TACTICS NEEDED TO BE CHANGED. Roosevelt's handling of the New Deal is a perfect example of American pragmatism.

6. To understand Roosevelt's "Quarter backing," the words BALANCE AND INTEGRATION are necessary; a balance between capitalism and socialism. The strategic issue was how to formulate the New Deal and blend the two contradictory economic policies to satisfy the country's needs.

7. Roosevelt acted as a political power broker, balancing off the demands of different interest groups. Big business got the National Recovery Administration, organized labor, the Wagner Act; Farmers, the AAA; major Wall Street brokerage houses, the SEC; conservationists, the TVA; and senior citizens and the working class enjoyed Social Security.
II. Concept number two: Discuss the patterns of the New Deal and the role of the 3 R's.

A. It seemed to many historians Roosevelt placed RELIEF and RECOVERY a bit ahead of REFORM between 1933-1935 (first New Deal), and then reversed the apparent priorities (while still wanting all three) from 1935 to the end of the New Deal, usually dated 1938 (second 1935-37 and the third 1937-38 New Deal).

B. The first New Deal (1933-35) sprang into life during the hundred days of spring in 1933. It combined mostly unemployment RELIEF with national planning coordinated by the federal government to bring about RECOVERY.

1. In the area of RELIEF the first New Deal passed the following acts:

   a. The Federal Emergency Relief Act (FERA) 1933; authorized grants to states in proportion to amounts spent on relief by the states.

   b. Public Works Administration (PWA) 1933; established under NIRA to increase employment through projects such as construction of roads and public buildings.

   c. Civilian Conservation Corps (CCC) 1933; an agency to give employment on soil, road, and reforestation projects to males between 18 and 25.

2. However, one of the major problems with relief was it led to an unbalanced budget and deficit spending. According to Keynes's economic theory, this is the way it should be. During a depression a nation should stimulate the economy by spending more than it took in. When prosperity returned it should balance the scale by increasing taxes and cutting back spending.

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<th>PUBLIC DEBT OF THE FEDERAL GOVERNMENT</th>
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3. **RECOVERY** was based on government planning by the use of the National Recovery Administration which was created under the National Industrial Recovery Act of 1933. Its main goal was to cut excess production so as to stabilize the market for big producers and develop a co-operative relationship with business, consumers and labor. The TVA was another attempt at recovery by trying to rebuild the economy of a 5-6 state region through government planning and financing.

C. The **second New Deal (1935-37)** came into being in 1935 after Roosevelt delivered his annual State of the Union Message to Congress declaring he must "quit this business of relief." He spoke of unfinished business, including public works and a comprehensive social security program. In the same year the Supreme Court by a 9-0 vote invalidated the NRA which was the centerpiece of the first New Deal. Roosevelt denounced the Court for a horse-and-buggy interpretation of the Constitution and energetically engaged in a broad range of REFORMS such as:

1. The Social Security Act of 1935 established programs for retirement pensions, unemployment insurance, and other social welfare services. The act was an attempt to redistribute income to the lower end of the social scale.

2. The Wagner Act of 1935, also known as the National Labor Relations Act, made it illegal for an employer to refuse to bargain with a union and allowed the federal government to intervene in relations between labor and capital in a more forceful way in order to protect labor from being deprived of their negotiating power by big business. The act also outlawed a list of unfair labor practices. Partly as a result of the Wagner Act but also as a result of the 1937 depression, union membership tripled between 1933-1939, from three million to over nine million.

The Wagner Act was another way of redistributing the income of society through the wage and job benefit system.

3. Another attempt at redistributing income and an indication of the direction of the Second New Deal was a changed emphasis in the taxation policy. On June 19, 1935, Roosevelt urged Congress in a special message to revise the federal tax system with a view to accelerating progressive income taxation and "encouraging a wider distribution of wealth." Congress quickly responded with a new tax law that sharply increased inheritance taxes, imposed a new surtax on net incomes over $50,000 (which went up as high as 75%), and initiated a graduated net income tax on corporations.
4. The last reform measure was the Banking Act of 1935. It was designed to centralize the control of national banking in Washington in order to prevent some of the problems and abuses that took place in the 1920s and early 30s.

5. Relief was still an issue for the second New Deal as Roosevelt focused on direct aid to workers and farmers (rather than on recovery programs for business like in the first New Deal). The Works Progress Administration created in 1935 (WPA) employed over 3 million people in its first year and 8 million by 1943. Before it expired in 1943 the WPA had spent over 11 billion dollars on public projects.

D. The third New Deal (1937-38). By the end of 1936 and early '37 it appeared the country was getting back on its feet, so Roosevelt supported measures of balancing the budget, cutting government spending and increasing taxes as Keynes' economic theory had advocated for RECOVERY. In 1937 he cut federal expenditures by about 25 percent, while tax revenues rose by about 50 percent. These actions shaved the federal deficit to slightly over $1 billion. The dampening effects smothered economic recovery. Of course, other factors played a role, but the decline in deficit spending helped trigger one of the sharpest recessions in history (a depression within a depression).

1. Two major events of 1937 were to bring an end to the New Deal in 1938. The first was the depression of 37 which led to the stock market dropping in the spring of 1938 and increased unemployment. The second was Roosevelt's "Court packing" fight with the Supreme Court. Voters apparently disliked the idea of Roosevelt's attempt to alter the balance of power within the Constitution. These events shook the confidence not only of many voters but of many New Dealers themselves.

a. The congressional elections of 1938 brought a coalition of conservative Republicans and Democrats to power, a coalition that made it virtually impossible to achieve any new legislative victories.

b. Roosevelt was the victim of what some political scientists have called "the deadlock of democracy." Presidential liberalism was neutralized by congressional conservatism. A president may have strong ideas, but Congress, however loosely organized and internally divided, is able at least to say "NO."

E. Between 1938-41 there was a stalemate between Roosevelt and Congress. By 1941 the lend-lease program and the impact of World War II pushed the economy into high gear.
III. Concept number three: Discuss the significance and the legacies of the New Deal.

A. The New Deal was the product of many minds and pressures apart from Roosevelt's. In fact, it was a loose bundle of laws and executive orders that were designed by many men and women. Most of the new policies were established as practical steps to solve immediate problems.

There was only one major idea behind it all: that the federal government's power should be used to meet any national crisis. Roosevelt and the New Deal became fused in the public mind. In Roosevelt the people felt they had a president who cared and who understood. THE GREATEST BENEFIT OFFERED BY ROOSEVELT AND THE NEW DEAL WAS HOPE. Programs like Social Security, WPA, and RA gave back to many Americans a sense of personal dignity and a belief in their country.

1. During the New Deal the conservatives or critics of the Right claimed government intervention in the economy and society had gone too far, impairing the market mechanism, encouraging dependence upon government among a formerly self-reliant people and concentrating two power in Washington in general and in the White House in particular. These arguments were rejected by a majority of the American electorate during Roosevelt's lifetime and have not been reflected in the mainstream of historical scholarship.

2. There were also critics on the Left or the socialist, who argued the New Deal saved a capitalist system that had failed, and it achieved only minor reforms when more sweeping change was possible. These arguments, as well, were rejected by a majority of the electorate and by most historians. The popularity of the New Deal was tested and affirmed at the polls at least twice... when Roosevelt ran for re-election in 1936 and again in 1940.

B. Second, it must be understood the New Deal was greater than the sum of its parts: it was the final acceptance of change in the American system which started with the Progressive Movement in 1901. The New Deal was a series of pragmatic reforms and compromises which saved capitalism after the "Old Deal" failed. It led to the development of a new capitalism referred to by different names such as "the welfare state," or "people's capitalism" and accepted in some degree by both the Republican as well as the Democratic Party after 1940.

The development of "people's capitalism" also led to the development of an effective partnership between private enterprise and government which is sometimes referred to as a "mixed economy." During the New Deal the Federal Government had to come to the rescue of banks and other industries with financial aid which involved government supervision and the development of the
partnership. Theoretically the American economy was a market economy, dependent on the decisions of private buyers and sellers. But as a result of the New Deal the state of the health of the economy evolved to where it became dependent, to a considerable degree, on the federal government through taxes, bank credits, direct spending, and subsidies.

1. As a result of the depression, the President and Congress had developed the tools to influence employment, inflation, prices, wages, and the rate of economic growth.

2. The government rarely adopted consistent or long-term programs of control which makes long-term planning by business difficult or sometimes very costly if its plans do not compliment future government strategies.

3. Since the New Deal, government policies--consciously or otherwise--have been directed toward guaranteeing the income of various segments of society. Thus the economic partnership between business and government has led to an economic system sometimes known as "people's capitalism" or "welfare capitalism."

C. Three, was the physical rehabilitation of the country. For generations Americans had been laying waste their natural resources without restoring them. The New Deal's attack on this problem was thoroughgoing. It involved an ambitious program of soil conservation, building dams, and planting trees to prevent floods, reclaiming the grass lands of the Great Plains and millions of acres of sub-marginal lands, developing water-power resources, and inaugurating vast regional reconstruction enterprises like the TVA and the Columbia river projects. All this changed the face of the country and restored to productive use much of the national domain. No part of the New Deal was more imaginative than that of the conservation of natural resources as demonstrated by the TVA.

Of all the New Deal projects the most dramatic was the Tennessee Valley Authority. Not content with government operation of Tennessee river dams for nitrate production, Roosevelt insisted on expanding the program to a vast experiment in regional reconstruction. Congress in May 1933 created the Tennessee Valley Authority, with power to acquire, manufacture nitrate and fertilizer, generate and sell electric power, inaugurate flood control, withdraw marginal lands from cultivation, develop the river for navigation, and in general advance the economic and social well-being of the people living in the river basin's five to six state region.

D. Fourth, there was a major development in the realm of politics and government which saw the strengthening of the executive branch and the reassertion of
presidential leadership characteristic of every period of progressivism in our history. Roosevelt made it clear as his predecessors had that the presidential power was pretty much what the President made it. As a result Roosevelt demonstrated leadership as seldom seen before or since and made the Democratic party stronger than it had ever been by grafting together a coalition of (1) urban workers, (2) farmers, (3) ethnic and racial minorities, and (4) intellectuals.

E. **Last**, but by no means least, was the maintenance of the democratic system of government and society in a world swept by fear and war. The New Deal brought hope to a free world which had nearly lost faith in itself. Fascism was a steadily expanding force throughout the 1930s, and it seemed for a time that only Communism had the strength to oppose it. **One of the most important accomplishments of the New Deal was its success in convincing so many Americans and Europeans that democratic reform and capitalism represented viable alternatives to totalitarianism. Roosevelt felt failure to meet the people's needs was the greatest fundamental danger to the democratic and capitalistic systems.**

1. In 1938 he said, "...if its business system does not provide employment and produce and distribute goods in such a way as to sustain an acceptable standard of living democracy cannot survive."

2. Roosevelt stated, "Government has a final responsibility for the well-being of its citizenship. If private cooperative 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."

3. Roosevelt was dedicated to (1) strengthening and improving the nation's economy and (2) providing a wider distribution of the fruits of capitalism which the market place offered in theory but not in practice. For in the 1930s it became doubtful whether liberty, democracy, or capitalism could survive in the modern world, and at the end of the decade totalitarian states felt strong enough to challenge the democracies in a war for survival.