New Deal Outcomes

1. Farmers: President Roosevelt supported the Agricultural Adjustment Act (AAA), which attempted to limit the production of food. The AAA did end up helping farmers, but had several unintended consequences.

- Consumers paid more for food and more in taxes to pay for the aid to farmers. Hence, the AAA helped farm owners and hurt almost everyone else.
- Farm owners could now make more money, through subsidies, by stopping production on sharecropper/renter land (the worst land, since the best land would be kept by the owner). The AAA led to more unemployment for sharecroppers and renters!
- To get the price of crops up, the AAA had to destroy crops. Many people felt it was cruel to destroy 5-6 million pigs, for example, when people were starving!
- Government aid led, as it generally does, to corruption and waste.
- Higher prices (more than double for cotton) led to MORE production, leading to an even greater surplus.
- The AAA improved soil conservation and environmental quality in the farm region.

Why didn't the government buy excess food and ship it overseas? (This is known as "**dumping**".) The idea of the government giving taxpayer money to help foreigners buy food from American farmers at a lower price than Americans themselves were paying for that food was not very appealing to consumers. In effect, the lower prices for foreigners keep the prices higher for Americans so American consumers get hurt twice (through taxes and higher food prices). Dumping also wipes out foreign farmers, who can't possibly compete with American crops sold below cost due to subsidies from American taxpayers. Moreover, dumping does nothing to cure the underlying problem of farming, which is overproduction. In fact, it encourages more production, as it drains money from taxpayers.

Increasing the money supply (see below) and therefore causing **inflation** will definitely help farmers as it helped them in the past (in 1897, and again in World War I).

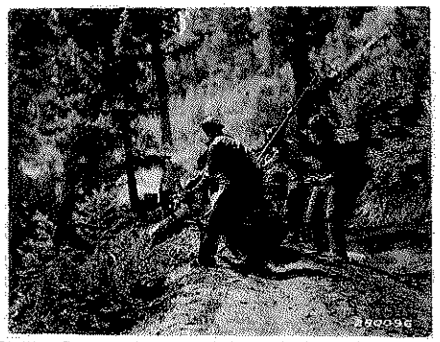
Helping the poorest farmers – tenants and sharecroppers – is a worthy step toward economic equality if that was a goal. The Resettlement Administration and loans for tenants to buy their farms did a great deal to help many poverty-stricken farmers.

Increasing farm productivity through is a worthwhile goal in general, but it certainly isn't helpful when the problem is that you are producing too much already!

Letting the market work (**laissez faire**) to drive out less productive farmers seems cruel, but it may be the best option in the long run. Once farmers move to new occupations, they may be better off than they would have been limping along on an unprofitable farm with some government subsidies. The suggestion to use government money to retrain farmers would make the change less cruel. The government would have to make sure any farmland sold was not bought for farming again.

2. Poverty/Unemployment: The government adopted some parts of all five of the proposals. The government began a variety of public works programs (a) with jumbles of letters (CWA, CCC, PWA, etc.) to confuse students in history classes. These are some of the positive and negative effects:

- The programs certainly put people to work and provided income without the stigma of taking a handout (welfare) from the government. People were working for the money, which improved morale in the country and reduced the possibility of civil disorder.
- Many of the projects improved the country's infrastructure (roads, bridges, public buildings, national parks) for decades to come.
- The money for these programs came from taxpayers, who could have used it in other, possibly more efficient, ways in the economy.
- There were many complaints of paying workers to do useless work or very little work. One popular story told of workers who dug holes while other workers filled them in. In another story, workers made bracelets out of plastic material called boondoggle. "Boondoggling" became a term used widely to refer to doing a useless job.
- In some programs, a large portion of the money went for materials and people to run the agencies, so a lower percentage went for hiring the unemployed. Also, some programs were slow to get started, so they didn't help reduce unemployment quickly. Neither of these criticisms applied to the Civilian Conservation Corps, however. The CCC started quickly, employed a high number of men (3 million), and improved the environmental quality of the country, including reducing soil erosion and planting 3 billion trees. The photograph below shows men at work on the environment.



Civilian Conservation Corps in Idaho, Boise National Forest
Franklin D. Roosevelt Library, Public Domain Photographs and Prints, Arc Identifier 53227(313)

- The government did fund **emergency welfare** through the states in the Federal Emergency Relief Act (FERA). It was meant to be temporary. FDR felt that welfare made people dependent upon the government and took away their dignity to fight their own battles to better their own lives. He referred to welfare as a narcotic. Nevertheless, in 1933 the crisis was so great that he felt welfare was needed.

- The government gave some **food relief**, but in general, the government avoided giving food to people because it would reduce farm prices. It sounds so logical to give excess food to people who are hungry, and it may have been the best action to take in 1933. But if you play out this option, you'll notice a problem. It is very difficult for the government to tell who is poor or starving among those who come for food relief. It would be cumbersome and costly for the government to check everyone and it would be humiliating for the recipients. However, if people aren't well screened, some people will get the food relief who were rich enough to have bought the food themselves. This would cause demand for food on the market to drop, causing prices for farm products to keep dropping.

- The government, through the NRA, gave **laborers the right to organize** into unions and to bargain with owners as a group. The NRA also authorized the creation of a **minimum wage**. Later, Congress also passed the National Labor Relations Act, popularly known as the Wagner Act. This act increased labor membership and gave labor more power to negotiate favorable contracts for workers. These actions increased the cost of labor, which led to higher unemployment. With higher wage costs, production dropped and unemployment rose.

3. Economic recovery:

- President Roosevelt promised a **balanced budget** in his campaign, but he quickly changed to **deficits** as President. The deficits, however, were not large enough to have a big impact on economic growth.
- Building the **military** was not tried in the US until after 1939, when it helped reduce unemployment. Building a large military was tried in Germany and it did help economic growth and decreased unemployment, but also made Germany more militaristic.
- **Tax cuts** probably helped the economy in the 1920's, and when they were cut in the late 1930's there was again economic growth. The government also needed to deficit-spend to increase growth.
- FDR did **increase spending** in many programs and some of the programs stimulated growth. It is to FDR's credit that he did not move to a military state in response to the depression.
- **Increasing the money supply** was probably the best action you could take, according to many economists, since the Depression was probably caused by a decline in the money supply. Going off the gold standard increased the supply of money, which caused prices to stop declining. Price stability made it advantageous for people to borrow money, and that borrowing expanded businesses and increased employment. Increasing the money supply led to inflation, but when prices have been dropping, some inflation was helpful, unlike the situation of hyperinflation in Germany in the 1920's. It is a different situation in a depression.
- The government did reform the **stock market** with the Security & Exchange Commission (SEC), which helped investors get more accurate information. However, that did little to recover from the depression, since the stock market represented only a small percentage (1-2%, perhaps) of the whole economy.
- The government did not increase **taxes** on the rich.

Banks: One of the fundamental economic problems of the Great Depression was banking practices and bank panics. The Glass-Steagal Banking Act attempted to fix some of those problems. But there were also problems with potential bank regulations.

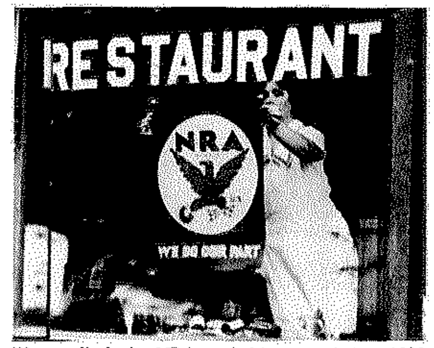
- If you increased the **reserve requirement** you reduced the amount of money banks had available to loan out. Fewer loans = smaller economy = higher unemployment. You hurt the economy! What were you thinking?
- **Insuring bank deposits**, called FDIC, was a very good idea. Once people knew their deposits were insured by the government, they were reassured that they could always get their money. Consequently, there was no cause for runs on banks. The whole banking system became more stable.

(However, much later, in the 1980's, some banks started to make risky loans. Many banks defaulted when the borrowers couldn't repay the loans. The FDIC was forced to pay out $500 million of taxpayer money to depositors in the failed banks in what was referred to as the Savings and Loan Scandal.

- Giving a **bank holiday** was also a good idea, since as with insuring bank deposits, it increased the confidence of the public in the banking system. The government classified banks into three categories of soundness and wouldn't open a bank until it achieved the top, soundest category. Confidence is very important when people are depositing or borrowing money.
- President Roosevelt resisted the idea of **government takeover of banks** because he believed in private banks. Some other countries had national government banking systems, something that had widely varied results on their economies, so it is difficult to say how it would have affected the US economy. However, it would have run counter to American beliefs about private property.

4. Political actions: Extreme options were considered – even by important political and social leaders – as FDR took over in March, 1933. The government did not adopt central planning of the economy or any true version of **socialism**. As frightening as it seems now, the crisis seemed so severe to some people that they felt the President should become a **fascist dictator**. It is certainly one of President Roosevelt's greatest legacies that he did not choose to end our democracy in the crisis of the Depression. It may seem unlikely that it could have happened, but other countries did change to dictatorships during the depression. FDR's **optimism**, despite having suffered from polio, helped reassure Americans about overcoming the depression as well. For a number of reasons, FDR's optimism did not sound as contrived or uninformed as Hoover's. FDR's informal talks became his famous **"fireside chats"** that again helped Americans feel that the government cared about them and was taking action to make things better.

5. Industry (non-farm) recovery: FDR submitted and Congress approved the NIRA, the act creating the National Recovery Administration (NRA). The government sponsored nationalistic parades to get the public to support the NRA businesses. As shown in the photograph below, participating businesses could display the Blue Eagle in their windows, with the slogan "WE DO OUR PART."



Woman displaying NRA symbol in store window, 1933
Franklin D. Roosevelt Library, Public Domain Photographs, ARC Identifier: 196519

The main "part" NRA businesses were doing was raising prices. It stopped deflation, which had been hurting the country. The codes improved business ethics overall. However, most historians and economists agree that the NRA hurt the country and may have prevented recovery. Here are some reasons why:

- The idea behind the NRA was to raise prices by **limiting production**. We're in a depression already, which is defined as producing fewer goods and services. So now, we pass an act to cut production even more? By the time FDR took over, production had already been limited by economic forces.
- Since the government did not have the resources to write the codes of conduct for businesses, it had to allow businesses themselves to write them. The businesses that sent representatives to the meetings to write the codes now had an unfair advantage over any competitors who did not. For example, textile producers in the north wrote codes to restrict production of textiles in order to prevent cheaper southern textiles from flooding the market and reducing prices. The codes also set a minimum level of wages, so southern mills couldn't use cheaper labor to undersell northern mills. Kansas oil producers wrote codes to limit competition from Texas oilmen. Small grocery stores and general stores wrote codes to prevent competition (lower prices) from large chain stores, such as A & P and Woolworths. Similar battles were written into codes in other industries.
- Many small businesses were hurt by codes. A single person running a store and working long hours would not have the time to keep up or comply with codes. If the codes were evaded without enforcement, then those who broke the rules would have an unfair advantage over those who followed the codes. But enforcement was just as big a

problem. The public sympathized with the small businesses which were prosecuted. For example, an elderly immigrant tailor was fined $100 and sentenced to thirty days in jail for the crime of charging thirty-five cents, instead of the code minimum of forty cents, to press a suit. Naturally, the public disliked this kind of government regulation.

- By 1935, almost everyone disliked the NRA. Businesses disliked the government regulation, consumers disliked the higher prices, and labor did not feel it had received the hoped-for rights. The attempt by the government to micromanage little parts of businesses was counter to the American business culture of a free market. Even where a group was helped, people disliked government bureaucracy.

The government had already increased **tariffs** in 1930 to protect American industry and thereby decrease unemployment in some industries. As is common with tariffs, other nations retaliated by raising their tariffs or used some other method to reduce American exports to their countries. American imports and exports were cut by half after passing the tariff. This reduced level of trade, called "beggar thy neighbor" in the 1930's, hurt the economies of all the countries involved. Free trade brings economic growth by allowing each country to specialize in what it does best. Each worker produces more per hour (higher productivity) because he is making what he makes best. Therefore, the opposite of free trade, higher tariffs, is <u>less</u> economic growth. This is exactly what happened from 1931 to 1933, after the tariff. Bad news!

Business **subsidies** may lead to less competitive businesses. Tax money to fund the subsidies is being taken from other, possibly more efficient businesses. Besides, giving subsidies may lead to corruption, where officials may give subsidies to friends, not to the most promising businesses.

6. Retirement (Social Security): The government passed the Social Security Act in 1935. On the positive side, the act provided for the retirement of Americans and it gave important help to widows and their children.

Social Security: Mother and Child, 1935
Franklin D. Roosevelt Presidential Library
Public Domain Photographs and Prints, Arc Identifier 53227(1740)

However . . .

- Social Security took money out of circulation in the payroll tax causing **deflation.** Social Security made the fundamental economic problem of the Depression worse. Until 1939 the government was taking more money out of the economy for the payroll tax than it was paying out for benefits. It had to take money out to save for the day when more people were retiring. But that simply meant less spending, lower GDP and higher unemployment. After the taxes started being taken out, in 1937, there was another downturn in the economy.
- Since employers paid 1% for the retirement of their workers, the cost of each worker rose and as a result—you guessed it—**unemployment** rose! The evidence is very clear on this point. Workers in industries covered by Social Security had higher unemployment rates than those who were not covered.
- Aid to widows eventually expanded to all low income single or divorced mothers with dependent children, called AFDC, commonly referred to as **welfare**. Welfare became controversial in the 1960's up to the 1990's. Critics charged that taxpayers were funding people to stay home and avoid work. They felt welfare made people lazy, dependent on the government and more likely to have children out of wedlock. Defenders argued that a civilized society should take care of its poorest citizens, especially the children of the poor, who were innocent victims of their parents' fortunes and decisions.