The New Deal and Economic Recovery
In the 1930s, Americans faced the most severe financial crisis in the history of the United States. In an effort to recover from this crisis, Franklin D. Roosevelt instated the New Deal—a series of programs and laws designed to offer relief to Americans. However, there has always been a debate over the effectiveness of the New Deal policies. In 1995, Robert Whaples published his findings to the proposition “taken as a whole, government policies of the New Deal served to lengthen and deepen the Great Depression” in his article, “Where Is There Consensus Among American Economic Historians? The Results of a Survey on Forty Propositions”. It is interesting to see where the division lies in this debate, as the disparity in responses is clearly between economists and historians. When it came to economists, 27% agreed with the proposition, 22% agreed— but with provisions, and 51% generally disagreed. When historians were asked, only 6% agreed, 21% agreed— but with provisions, and an overwhelming majority of 74% generally disagreed (Whaples, 144). Before understanding why such a disparity exists, an overview of the economic climate of the 1930s, and some provisions of the New Deal should be illuminated.

Randall Parker provides an introduction to the conditions Americans were exposed to during the Great Depression in his “An Overview of the Great Depression”. He notes the three waves of bank failures which paralyzed depositors, as there was no deposit insurance. Furthermore, he provides quantitative information to support his arguments. Between January 1932 and March 1933, industrial production fell 15.6%. Also during these combined years, CPI fell a cumulative 16.2%, nominal supply of M1 dropped 21.6%, and nominal supply of M2 fell 34.7%. Between August 1929 and March 1933, unemployment rate went from 3% to 25% (Parker, np). He effectively portrays a crippled America in desperate need of assistance.

Peter Fearon explains the assistance America received in his “The New Deal: An Introduction”. Within the first hundred days of Roosevelt’s term as President, Congress passed fifteen major laws to stimulate economic growth and improve social conditions. Roosevelt's ultimate goal was to reform, relieve, and recover America (Fearon, 168). Fearon describes the New Deal as “a skillful political exercise with Roosevelt acting as a broker between various interest groups” (172). An analysis of total
U.S. Gross Domestic Product can serve as an indication as to how skilled Roosevelt was at this “political exercise”. It is worth noting the consistent decline in GDP between the years of 1930 through 1933, and the consistent increase in GDP between the years of 1934 and 1937, as this correlates with the harsh years of the Great Depression, and a positive impact created by the New Deal (see data appendix). However, changes in GDP are not the only indicators that should be taken into consideration when assessing the effectiveness of the New Deal.

In his “The New Deal: A Conclusion”, Fearon assesses the many impacts the New Deal actually had in restoring order and stability to the United States economy and society. He hone in on the restoration of hope that Roosevelt provided for Americans. Given the fear stricken business and banking communities, and the dismal morale of Americans, Fearon recognizes that “the restoration of hope must be amongst the President’s greatest triumphs…” (258). Fearon also notes the biggest failure of the New Deal, as its inability to cure unemployment (259). He concludes that there were efficiencies and inefficiencies resulting from the implementation of the New Deal, but all traces of the Great Depression were eliminated due to World War II (259). Thus, Fearon offers a fair account on the effects of the New Deal, addressing both its strengths and weaknesses, but ultimately attributes the stabilization of the economy to World War II. However, there are other, more opinionated accounts of the impacts of the New Deal. In hindsight, we are able to see the overall effects of each individual New Deal policy, and assess its effectiveness as a whole.

In 1998, Robert Higgs argued that the New Deal served only to create the illusion of recovery, in his “The Mythology of Roosevelt and the New Deal”. Higgs blames the New Deal for the failure of private investment and overall private economic activity recovery.

A majority of the New Deal policies, such as the expenditures, taxes, subsidies, regulations, and direct government participation in productive activities, supported interventionist policies. This type of intervention interferes with the free market, and as a result leaves an economy less productive than it could be. Higgs argues that these policies created hostility, confusion, and fear among businessmen and investors. As a result of this confusion, net private investment between 1930 and 1940 was negative $3.1
billion (Higgs, 354). An economy cannot grow without capital accumulation, thus his point is well made as capital accumulation was lacking.

Higgs also makes the correlation between those who directly benefited from the New Deal policies, and FDR's pursuit of political support. Despite their history of loyalty to the Republican Party, many African Americans supported FDR's policies. Higgs rationalizes their shift in political support with the fact that FDR offered this group of voters relief payments. Furthermore, Higgs attributes the support FDR received from homeowners to New Deal policies, as certain policies allowed homeowners to refinance their mortgages and also guaranteed the provision of home loans though the Home Owners Loan Act (355). Essentially, Higgs claims that FDR used the New Deal as a way to exchange large amounts of money for political support.

He turns to other facts, such as that in 1939, 9.5 million Americans (17.2% of the labor force) still remained officially unemployed, to bring home the point that the New Deal was ineffective (357). His conclusion is that the New Deal only succeeded in improving American ideology and morale.

In 1999, David M. Kennedy authored “Freedom From Fear: The American People in Depression and War, 1929-1945”. In chapter twelve, “What the New Deal Did”, he discusses what the New Deal did, as well as what it did not do. Kennedy admits that the New Deal “fell pathetically short of achieving full economic recovery”, for many reasons, one being the high unemployment average of 17% throughout the 1930s (Kennedy, 252). However, Kennedy’s focus for the majority of his assessment is on the security that the New Deal offered Americans.

Kennedy brings to light specific initiatives, such as Federal Deposit Insurance (FDIC), and the Securities and Exchange Commission (SEC) for their “common cardinal purpose: not simply to end the immediate crisis of the Depression, but to make life less risky and more predictable to temper for generations thereafter…” (254). Therefore, while the New Deal was not effective in terms of its immediate impact on the economy, it served to achieve a more long-term goal. Prior to the New Deal, only about four out of every ten Americans lived in their own homes. Through the security offered by New Deal initiatives, Americans were able to take out loans, which allowed them to purchase their own
homes for the first time in years (258). Furthermore, Kennedy highlights the jobs created by New Deal programs, such as the Civilian Conservation Corps (CCC), Works Progress Administration (WPA), and the Public Works Administration (PWA). These jobs created stability and financial security for Americans (266).

Five years later, Harold Cole and Lee Ohanian authored “New Deal Policies and the Persistence of the Great Depression: A General Equilibrium Analysis”. Alike to Higgs, they attack the policies of the New Deal. Their focus is primarily on the National Industrial Recovery Act (NIRA), and how it essentially contributed to higher unemployment and slowed the economy's ability to achieve a desirable long-term growth rate. They also address what happened after NIRA was abolished, and the similar impacts the National Labor Relations Act (NLRA) had on the economy.

The NIRA allowed for companies to form agreements that regulated pricing and production. Cole and Ohanian argue that the establishment of these cartelization policies is to blame for the weak recovery of the economy during the 1930s. It can account for sixty percent of the difference between actual output and trend output. Had these policies not been in place, output would have been much higher. Furthermore, Cole and Ohanian compared statistics of industries affected and not affected by cartelization policies. They found that industries affected by the cartelization policies saw an increase in wages and prices, which further hindered economic recovery (Cole and Ohanian, 781).

Cole and Ohanian support their argument with the evidence that they are not alone in their disapproval of this New Deal policy. In the 1930s, the National Recovery Review Board (NRRB) found NIRA to “not only permit, but foster monopolistic practices” (792). Moreover, FDR acknowledged the ill effects of cartelization: “the American economy has become a concealed cartel system... the disappearance of price competition is one of the primary causes of present difficulties” (793). It was no surprise that the Supreme Court abolished this particular New Deal policy in 1935, deeming it “an unconstitutional delegation of legislative power, primarily because of the act’s suspension of the antitrust laws” (785). Essentially, NIRA raised wages, restricted employment and fundamentally prevented a normal recovery of the economy.
Although the NIRA only lasted two years, Cole and Ohanian claim that its policies were still present in the years following its abolition. Despite the court’s decision regarding these antitrust laws, the government passed the NLRA, which only served to strengthen many of the NIRA labor provisions. In fact, the NLRA gave even more bargaining power to workers than the NIRA. Cole and Ohanian present data that reveals that the Department of Justice did very little to prosecute antitrust deviations, and as a result, the government was able to ignore the collusive arrangements in industries that paid high wages (785-786). Thus, the abolition of the NIRA was not effective, as wages and prices continued to rise through the implementation of the NLRA.

A majority of historians believe that the New Deal did not serve to lengthen and deepen the Great Depression. The 76% who generally disagree with the proposition use several different approaches to defend the New Deal. In 2009, Greg Hanngen and Dimitri Papadimitriou address specific New Deal policies and their respective positive impacts these policies had on the economy in their article “Lessons From the New Deal: Did the New Deal Prolong or Worsen the Great Depression?”

The sharecropping system used by farmers during the time of the Great Depression was infamous for its inefficiencies and exploitative tendencies. Hanngen and Papadimitriou attribute the end of this sharecropping system to the New Deal, which provided farmers with money for the mechanization of agriculture. The increase in the mechanization of agriculture increased worker productivity, as the machines enabled farmers to do more with their time (Hanngen and Papadimitriou, 9-10). Fundamentally, the New Deal offered financial aid to farmers during the Great Depression, which helped to end an inefficient policy, and to promote a more efficient life for farmers.

Hanngen and Papadimitriou claim that specific New Deal policies improved the level of unemployment. They report that between the years of 1934 and 1938, 13-15% of the total number of unemployed workers was employed in federal public works programs. These federal public work programs, such as the Civilian Conservation Corps (CCC) and the Works Progress Administration (WPA), were established through the implementation of New Deal policies (17). Thus, the New Deal programs provided Americans with a measurable number of jobs that were designed to help improve the economy
of the United States, while also providing workers with a much-needed paycheck.

Furthermore, they claim that the New Deal reinstated confidence to the banking system through the creation of Federal Deposit Insurance Corporation (FDIC). The FDIC gave depositors confidence in their decision to leave money in the bank by guaranteeing that their deposits would be insured. To a degree, the New Deal eliminated the fear of bank bankruptcy from depositors and allowed for these financial institutions to rebuild a reliable reputation that had been lost as a result of the three major bank panics of the early 1930s (15).

Another approach to defending the New Deal’s role in the economic recovery after the Great Depression is to analyze its lasting impacts. In 2011, David Weiman utilizes this approach in his counterfactual “Imagining a World Without the New Deal”.

New Deal policies resulted with an increase in relief spending. Many claimed that this spending needed to be decreased. However, in 1937, when Congress decreased relief spending, the economy saw a double dip recession. This helps to validate the argument that there are economic benefits of relief spending, as its removal had detrimental effects on the economy as a whole. In addition, this relief spending facilitated the creation of jobs and enhanced the quality of life, for both current and future generations. Examples of such provisions include Social Security, health and nutrition initiatives, and the provisions that enabled the infrastructural development of America (Weiman, 1-2).

Specifically, the Public Works Administration (PWA) and Works Progress Administration (WPA) were made available by relief spending. These programs allowed Americans to reap immediate and long-term benefits, such as the creation of more than 650,000 miles of paved roads, thousands of bridges and tunnels, 700 miles of new and expanded runways, improvements to railroad lines, and other contributions. The PWA and the WPA were initiatives that facilitated the foundation for a developed, strong, connected country. Moreover, having these infrastructural designs in place enabled a more rapid post World War II economic expansion. Best of all, many of these infrastructural contributions made during the depression, such as the FDR Drive, Amtrak rails, and the Golden Gate Bridge, are still in use by millions of Americans today – nearly a hundred years later (2). This point is essential in analyzing the impacts of the
New Deal, the fact that the New Deal cannot be assessed for its immediate impact on the economy. Weiman successfully addresses the fact that many New Deal policies were designed to benefit Americans in later years. 

As noted by Cole and Ohanian, the National Industrial Recovery Act (NIRA) is arguably the most criticized of all the New Deal policies. However, in 2012, Gauti Eggertsson defended the NIRA. He shed light onto the temporary nature of the NIRA, and how this temporary implementation aided in the economic recovery during the Great Depression. What seems to be overlooked, he argues, is the principle that the expectation of higher inflation actually increases output, and that expected deflation causes current consumption to be more expensive than future consumption. An economy cannot grow when its consumers believe that prices will drop in the future, as this will encourage consumers to restrict their spending. The NIRA was designed to increase prices and wages. Thus, by increasing prices and wages, the NIRA effectively increased inflation expectation, and arguably eliminated deflation. Although this was a temporary fix, it served to create a favorable balance between spending and expectations (Eggertson, 526-527).

Eggertsson also shows that the NIRA allowed for the increase in the monopolistic power of firms. He argues that, under the condition of excessive deflation and output, that this was an effective expansionary strategy. Eggertsson uses models to suggest that the United States can attribute the New Deal policies for about 55% of output recovery and 70% of the recovery in inflation pricing, as seen between the years 1933 to 1937. This supports the idea that, had these policies not been in place, output would have continued to fall and deflation would have continued (538-539). Thus, despite opposing viewpoints, the NIRA played a role in the economic recovery after the Great Depression.

The debate over the impact the New Deal had on economic recovery still lingers. While the majority of historians feel that the New Deal did not lengthen or deepen the Great Depression, a majority of economists disagree. Given the wide variety of different programs that made up the New Deal, it is no wonder that research offers opposing views of the New Deal's effectiveness.
Total U.S. Gross Domestic Product
1929-1940

Work Cited


