Name: ____________________________________________

**Purpose:** the purpose of the reading and accompanying tasks is to think about the successes and failures of the New Deal.

**Directions:** Complete the following tasks and answer the following questions in your composition books.

1. Describe the economic problems that FDR needed to address.
2. What programs did FDR implement during the "first hundred days"?
3. Explain three programs that helped address the problem of unemployment.
4. What is the "Second New Deal"?
5. Describe at least two reasons that the New Deal was a success.
6. Describe at least two reasons that the New Deal was a failure.

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**The New Deal, Then and Now**
by Alan Brinkley

Well before Barack Obama’s election, the New Deal was emerging as an instructive model for those trying to understand, and address, what is now known as the “worst financial crisis since the 1930s.” But is the New Deal in fact a useful model for our own troubled times?

In some respects, the New Deal – and in particular its first hundred days – have important lessons for our time, lessons that President Obama seems already to have learned. Franklin Roosevelt’s first and most important contribution to solving the great economic crisis he inherited in 1933 was to exude confidence and optimism and to invite frightened Americans to put their trust in his energy and activism. In his Inaugural Address, Roosevelt promised “action, and action now,” and to a large degree he delivered on that promise. The frenzy of activity and innovation that marked those first months, a welcome contrast to the seeming paralysis of the discredited Hoover regime, helped accomplish the first, and perhaps most important, task he faced: ending the panic that was gripping the nation.

Roosevelt also moved quickly and effectively to address the most dangerous financial crisis of the Great Depression – a wave of bank failures that was threatening shut down the financial system altogether. The banks were in trouble in part because the financial markets were in trouble; the massive stock market collapse that began in October 1929 erased massive amounts of wealth – and because many banks had invested heavily in the markets, and had lent recklessly to speculative investors, the banks found themselves without sufficient capital and in many cases without reserves. The biggest wave of failures occurred in the weeks just preceding Roosevelt’s inauguration.

On his first day in office, he proclaimed a “bank holiday,” and a day later he signed the Emergency Banking Act, which allowed inspectors to evaluate troubled banks and decide whether or not they could reopen. Later in 1933, the Glass-Steagall Act created a barrier between commercial and investment banking and established the Federal Deposit Insurance Corporation, which guaranteed that citizens would not lose their bank deposits even if a bank failed. Shoring up the banks was one of the most important achievements of the New Deal. Without it, an already crippled economy could have spiraled even further downward. In creating the Securities and Exchange Commission, he helped make the beleaguered stock market more transparent and thus more trustworthy.
The New Deal also responded vigorously to one of the greatest problems of the Depression – an unemployment rate that had reached twenty-five percent, and in some cities as much as seventy-five percent. In the first year of the new administration, Congress created the Federal Emergency Relief Administration, which tried to shore up the exhausted state and local relief agencies; the Civil Works Administration, which hired the unemployed to work for the government – sometimes on significant capital projects, and sometimes on menial activities, but always in ways that channeled money to people who needed it. At the same time, the Public Works Administration began what became an almost decade-long process of building major infrastructure projects, which over time helped support economic activity in areas that previously had had no prospect of growth. Two years later, the New Deal created the Works Progress Administration, the most extensive federal work-relief program ever created, which kept an average of two million people employed throughout its eight-year history.

In 1935, with the Depression still in progress, Roosevelt launched what has often been called the “second New Deal,” a period of activism comparable to the first hundred days, but in many respects far more productive. It produced the Social Security Act, which created unemployment insurance, aid to dependent children, assistance for the disabled, and most important of all, pensions for older Americans. The “second New Deal” also helped create the Wagner Act, which gave unions the right to bargain collectively with employers and created an enforcement mechanism; over time, it helped raise wages and benefits for millions of workers and increased aggregate purchasing power. In 1938, Roosevelt signed the Fair Labor Standards Act, which created the minimum wage and the forty-hour work week, which also, if belatedly, helped increase consumption.

No president had ever before intervened in the economy as extensively or aggressively as Franklin Roosevelt did in the 1930s, and the sheer magnitude of his activism and his legislative achievements awed not only many Americans, but much of the world.

And yet this impressive array of achievements – achievements that have had a profound and lasting impact on the government’s capacity to support and protect its citizens – did not, in the end, do very much to end the Great Depression. At no time in the first eight years of the New Deal did unemployment drop below fifteen percent. At no time did economic activity reach levels comparable to those a decade earlier, and none of the periods of recovery during the peacetime New Deal lasted very long. So what went wrong? Why did this bold, active, and creative moment in our history prove such a failure at its first and most important task? Part of the explanation was a result of actions the New Deal took, but a larger part of the explanation was a result of things the New Deal did not do.

Some of the New Deal’s most important initiatives were, in fact, active obstacles to recovery. The National Recovery Administration, created in 1933 to help stabilize the volatile economy, was enormously popular for a time, mostly because the NRA created the illusion of bold and forceful action. The NRA sought to organize industries through “codes” that would allow corporations to cooperate with one another in keeping production low and prices up. The code authorities were almost impossible to administer, and the NRA was in many ways highly ineffective. But the NRA was even worse when it worked as it was supposed to do, because its goal was exactly the opposite of what the economy needed. Instead of expanding economic activity, the NRA worked to constrict it – artificially raising prices just as purchasing power was falling. It was a deflationary force in an economy already suffering severe deflation. The Federal Reserve Board – operating under classical economic assumptions – saw the economic wreckage around them and responded by raising interest rates so as to protect the solvency of the Federal Reserve Bank
itself. No one today would even consider high interest rates in a deflationary economy, but the 1930s Fed had not absorbed the new economic ideas that were gradually receiving attention. Milton Friedman wrote (with Anna Schwartz) an essay on the Depression in the 1960s that they entitled “The Great Contraction.” They placed much of the blame for this contraction on the flawed monetary policies of the Fed.

But the more important failure of the New Deal was what it did not do. The only way to break the economic deadlock that had paralyzed the American economy in the 1930s was to shock it back to life by enormously expanding economic activity – quickly and decisively. Instead, the New Deal wavered and quibbled – spending large sums of money with one hand while reducing spending with the other. One of the first acts Congress passed for Roosevelt in 1933 was the Economy Act, which slashed government spending in areas that helped reduce economic activity. It cut the salaries (and in some cases the jobs) of government employees, and it dramatically reduced payments to World War I veterans, taking $500 million from the economy in a single stroke. The Social Security System, so valuable over the long term, was in the short term also a drag on the economy. It began collecting taxes in 1936 but paid out no benefits until the 1940s. In 1937, deluded by a weak economic recovery, Roosevelt (urged on by his Treasury Secretary) set out to balance the budget through severe spending cuts. The result was a sudden and dramatic economic downturn – a recession within a Depression that produced some of the highest levels of unemployment and lowest levels of production of the decade.

In the aftermath of the 1937-1938 depression, Roosevelt launched a new $5 billion spending plan to try to shock the economy back to life. This infusion of funds did help undo the some of the damage that the 1937 budget cuts helped to create, but it only helped the economy recover to the weak and fragile condition of a year earlier. Nevertheless, the idea of spending as an antidote to recession – an idea that had never found much favor in the past even among the most progressive figures in the New Deal – now began slowly to find legitimacy. American economists were now eagerly reading Keynes and imagining more robust uses of fiscal and monetary powers to stimulate growth. It is possible, although by no means certain, that even without a war, the New Deal would have embarked on a spending program large enough to push the economy to somewhere close to full employment. But in the end, the Great Depression – an unprecedented crisis that had stubbornly resisted the efforts of two presidential administration over twelve years to restore prosperity – came to an end only because of the massive and inevitable spending required by the greatest and most terrible war in human history.

Economic orthodoxy – which rested on the assumption of scarcity and gave high priority to balanced budgets and fiscal prudence – was a powerful force in the 1930s despite its failures, just as the rollicking and now staggering orthodoxy of free and unregulated markets is today. The great achievements of the New Deal helped pave the way to an understanding of how to address severe deflation, but it never itself came to a point where it could use the tools at its disposal aggressively and effectively enough or quickly enough. As the Obama administration tackles a new financial catastrophe, it makes sense to look at the history of the New Deal – as the President reportedly is doing. There is much to learn from it – not just from its achievements, but also from its failures.

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http://www.gilderlehrman.org/historynow/03_2009/historian5.php