

# The New Deal

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Questions:

- Which level of government is the most important?
- Do governments coordinate or compete?
- What do we mean by BIG government?

Maybe by BIG government we don't mean the size of government, but the level of government.

Between 1929 and 1933 the economy entered into a deep depression and unemployment rose to 25% of the labor force. There was a wide spread dissatisfaction with the economic system (remember Big Business). There was also an urgency, bordering on panic, that something be done to turn the economy around.

I'm sure you have heard the phrase "New Deal Democrats." The Democrats had been a minority party from the end of the Civil War to 1932 and the election of FDR. What the Democrats did between 1933 and 1938 (The new Deal) was to commit the federal government to supporting government program in several key areas:

- Relief: what today we would call welfare.
- Agricultural Subsidies: farm price supports and payments to farmers.
- Reform of the Banking system and Stock Markets.

There were a number of other important initiatives (your favorite may have been left off this list), but the most important effects were in these three areas.

The upper panel of Table G-2 gives national government revenues, outlays, and debt for each of the years during the 1930s. The last column gives the excess of outlays in each year over the fiscal 1933 level (Hoover was president until March of 1933).

The second panel of the table gives the totals for what can be called "cooperative" grants (Column 7). These are expenditures in programs what are the joint effort of national state and local governments.

Four major categories are given:

Relief  
Public Works  
Agriculture  
Highways

Between fiscal 1934 and 1940, national government expenditures increased by \$21,769 million. Grants in these cooperative programs totaled \$27,414 million, more than the increase in national government expenditures.

How important was this overall. Figure 1 shows the share of all expenditures by level of government. The dramatic feature of both tables is the sharp decline in the share of expenditures by local governments, and the rise in the share of expenditures by the national government.

We have already looked at the sources of the growth of government. The big event in the 1930s was the expansion of the welfare system. The Social Security Act in 1935 created not only social security, but also a welfare system that included aid to dependent children, old age assistance, unemployment insurance, and aid to the blind.

This system, however, was not a NATIONAL system but a FEDERAL one. Most of the money was raised by the national government, but it was spent by the state and local governments. The fiscal arrangement by which this was accomplished was intergovernmental grants. Table G-1 shows a number of different measures of grants.

What began in the 1930s was a period of cooperative federalism, in which each level of government participated.

Government Expenditures During the 1930s (millions \$)

Panel A

	National Revenues (1)	National Outlays (2)	Gross National Debt (3)	Change in Debt (4)	Outlays - Outlays in 1933 (5)
1929	3861	3127	16931	-673	
1930	4057	3320	16185	-746	
1931	3115	3577	16801	616	
1932	1923	4659	19487	2686	
1933	1996	4598	22538	3051	0
1934	3014	6644	27053	4515	2046
1935	3795	6497	28700	1647	1899
1936	3997	8421	33778	5078	3823
1937	4955	7733	36424	2646	3135
1938	5588	6764	37164	740	2166
1939	4979	8841	40439	3275	4243
1940	6879	9055	42967	2528	4457
Total					21769

Panel B

	Census Grants (6)	Cooperative Grants (7)	Relief (8)	Works (9)	Agric (10)	Hwy (11)
1932	214	250	-	108	13	186
1933	190	432	154	196	12	161
1934	1803	2857	2126	356	303	219
1935	2197	3649	2221	459	664	272
1936	1015	3969	2343	618	573	221
1937	818	4273	2405	624	636	331
1938	790	3518	2047	504	431	217
1939	1031	4794	2671	691	743	185
1940	967	3922	2188	521	865	171
Total		27414	16155			

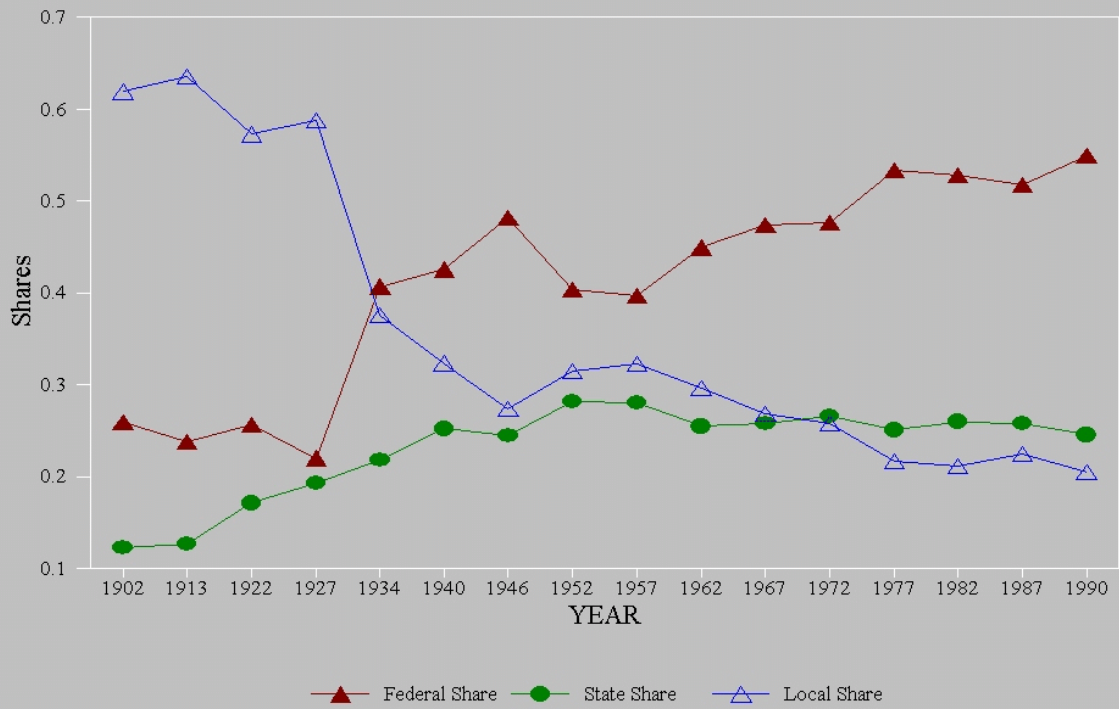
FIGURE 1

Shares of NMI Expenditures



FIGURE 2

Shares of Own NMI Expenditures



	GNP Billions	GNP Index 1929=100	GNP Deflator 1929=100	CPI 1929=100	GNP 1929 Prices
1929	104.4	100.0	100.0	100.0	104.4
1930	91.1	86.5	96.4	97.1	94.4
1931	76.3	72.6	86.8	88.4	87.4
1932	58.5	55.5	78.1	79.4	74.8
1933	56.0	53.2	76.9	75.2	72.7
1934	65.0	61.8	81.6	77.8	79.5
1935	72.5	68.9	82.5	79.8	87.8
1936	82.7	78.6	83.0	80.6	99.5
1937	90.8	86.3	86.1	73.0	105.3
1938	85.2	81.6	84.8	82.2	10.5
1939	91.1	86.5	83.7	80.8	108.7
1940	100.6	95.6	85.0	81.4	118.1

	Labor force	Employed	Unemployed	Unemployment Rate
1929	49180	47630	1550	3.2
1930	49820	45480	4340	8.7
1931	50420	42400	8020	15.9
1932	51000	38940	12060	23.6
1933	51590	38760	12830	24.9
1934	52230	40890	11340	21.7
1935	52870	42260	10610	20.1
1936	53440	44410	9030	16.9
1937	54000	46300	7700	14.3
1938	54610	44220	10390	19
1939	55230	45750	9480	17.2
1940	55640	47520	8120	14.6