Between 1933 and 1939 the structure of American government underwent a profound transformation. The New Deal created a stronger and larger national government, expanded the scope of social welfare services at all levels of government, established a permanent program of social insurance, and dramatically increased government regulation of the private economy. The New Deal is remarkable both for the speed with which the reforms were introduced and their permanence. With few exceptions, the major policy initiatives of the New Deal are still in place at the beginning of the twenty first century. The heart of the New Deal legacy are programs like Social Security, Unemployment Insurance, the minimum wage and maximum hours regulations, the Securities and Exchange Commission, the Federal Deposit Insurance Corporation, and agricultural price supports, and each of these will be discussed in turn. The New Deal was framed, however, by the Great Depression, a major shift in the balance of political power, and the normal cycles of American electoral politics. We begin with these background elements.

I .The Great Depression and American Politics

Between 1929 and 1933, the American economy suffered its deepest depression in recorded history. By the spring of 1933, 25 percent on the nation's labor force was unemployed, the real value of output and income had fallen by 30 percent. Prices had fallen by 25 percent in four years, and GNP valued in nominal prices had declined by 46 percent. GNP had been $104 billion in 1929, in 1933 it was only $56 billion. The Hoover administration found itself caught between traditional economic policy emphasized the importance of keeping government finances in order by raising taxes and cutting expenditures, both of which Hoover proposed, and the need to ameliorate the social dislocation caused by the depression through more active government policies. Hoover, who came to national prominence in World War I as a humanitarian through his administration of food relief to the Belgians, failed to show comparable compassion for the suffering of unemployed Americans. The Democratic nominee for president in the elections of 1932, Franklin Roosevelt, campaigned against Hoover's budget deficits. There was nothing in Roosevelt's campaign message to suggest the New Deal that followed his election.

The election was a turning point for the Democratic party. Between 1896 and 1930, the Democrats had elected only one President and controlled the House of Representatives for four terms and the Senate for three terms, all in the 1910s. The election of Wilson and control of Congress was the result of the Republican split over the Progressive Party, not because of inherent party strength among the electorate. When the Democrats came to power in 1933, they had been the minority power for 40 years. It was the depression that put them in office, could they stay in office on their own merits? Specifically, could Roosevelt and the Democrats form a stable coalition of interests from a party of disparate groups with little in common other than not being Republican?

Roosevelt was inaugurated on March 4, 1933 and he immediately called for a special session of Congress to meet on March 9. The special session was called to deal with the banking crisis that had spread throughout the nation. The Emergency Banking Act was introduced to Congress at 1:00 PM on March 9 and passed at 8:36 PM that evening. But Congress stayed in session until June, and in those "first hundred days" passed legislation creating the elements of the New Deal: banking and securities regulation, support for unemployment relief and social welfare through the Federal Emergency Relief Administration (FERA), price supports and assistance for agriculture through the Agricultural Adjustment Administration (AAA), and a measure of self-regulation for industry through the National Recovery Administration (NRA). Roosevelt, concerned about the budget, also urged economy measures. One of the first bills passed by Congress was an economy act, cutting the budgets of government agencies and the salaries of government employees by ten percent. The large appropriations for relief of farmers and the unemployed were placed in the "emergency" budget. The first hundred days contained something for every potential major group in the Democratic party: farmers (AAA), labor (FERA), and business (NRA).

The winter of 1933-34 was bitter and the economy, which had shown signs of recovery in late summer, went back into a slump in the fall. Over the winter, Roosevelt and his relief administrator Harry Hopkins, with the support of the Congress, provided work relief jobs for 2 million individuals. Between the summer of 1933 and the summer of 1934, national, state, and local governments combined spent over $2 billion for unemployment relief, over 4 percent of GNP in 1933. Would voters support this level of expenditures and the New Deal in general? In the elections of 1934, the number of Democrats elected to the House rose from 310 to 319, while the number of Democratic Senators rose from 60 to 69. The midterm elections of 1934 clearly indicated popular support for the New Deal.

Armed with this mandate, the Democrats returned to Washington, D.C. in the winter of 1935 and fashioned a more permanent New Deal. Between 1935 and 1937 Congress and Roosevelt together created a "Second New Deal." They created a permanent social welfare system through the Social (Economic) Security Act. They created permanent reform of the banking system and federal deposit insurance through the Federal Deposit Insurance Corporation (FDIC). Although the New Dealers allowed the NRA to slip forever into obscurity, they recognized the rights of labor to form unions and bargain collectively through the National Labor Relations act, which established the National Labor Relations Board (NLRB) to oversee the certification of unions and to mediate and arbitrate labor disputes. Despite a constitutional challenge to the agricultural price supports of the AAA, the New Dealers passed the Domestic Allotment and Soil Conservation Act which reinstated the AAA and provided the framework for continuing price supports and crop limitations in agriculture. And, not least, they recognized the need to continue battling the social effects of the depression by passing the Emergency Relief Appropriations Act of 1935, which gave Roosevelt the authority to create agencies to deal with the problem of unemployment. He created the Works Progress Administration (WPA), the National Youth Administration (NYA), and the Rural Electrification Administration (REA).

The Second New Deal was a smashing political success. In the face of growing opposition by business leaders, Roosevelt allowed the Supreme Court's challenge to the NRA to stand. The Democrats built a coalition of urban workers, northern and southern farmers, and the solidly Democratic (although conservative) South. In the elections of 1936, Roosevelt carried 61 percent of the popular vote, the number of Democrats in the House increased from 319 to 331, and in the Senate from 69 to 76. (All voting and representation figures are taken from *Historical Statistics of the United States*, 1975, p. 1077 and 1083.). By 1939, however, an alliance of Republicans and conservative southern Democrats had weakened the Democratic coalition. No major New Deal policies were reversed, but there were no new policy initiatives after 1938. The growing tensions in Europe began occupying more of FDR's attention. When he changed hats from "Dr. New Deal" to "Dr. Win the War" the New Deal had come to a close.

II. New Deal Federalism

Not surprisingly, New Deal history is about the national government and FDR. It is a story about the growth of "Big Government." Two important historical elements qualify the notion that the main consequence of the New Deal was the growth of big government. The first is the simple fact that between 1902 and 1922, total government expenditures – combined federal, state, and local expenditures – grew from 7.8 to 12.6 percent of GNP, and between 1922 and 1940, they grew to 17.9 percent. That is, government expenditures did not grow more rapidly between 1922 and 1940 than they did between 1902 and 1922. Government didn't grow faster during the New Deal, the federal government grew faster. Figure 1 shows the share of total government expenditures at each level of government from 1902 to 1982 (the numbers underlying the table can be found in *Historical Statistics*). The figure shows that expenditure shares were roughly stable before and after the 1930s, but during the decade a reversal in the relative importance of national and local governments took place. The growth of the national government relative to local governments constitutes the growth of "Big Government" in the 1930s.

The figure also shows the share of government spending at the state level did not decline during the New Deal, in fact it increased. State government expenditures were 2.8 percent of GNP in 1932 and 5.1 percent of GNP in 1940. The reason that state expenditures grew as the federal government expanded points to a second important fact about the New Deal: it involved state and local governments as well. New Deal programs for public works, relief, and agricultural support programs relied heavily of state and local governments for their operation. The New Deal had two components: the "national" New Deal, programs involving only the national government, and the "federal" New Deal, programs involving the mutual cooperation of the national, state, or local governments.

III. New Deal Programs

"Big" is a relative term. The most important national New Deal programs had wide-ranging impact on the economy, yet they carried little weight within the federal budget. Reforms in the banking sector, beginning with the Glass-Steagall Banking Act of 1932 and continued in a series of Banking acts, reorganized the Federal Reserve System, divorced investment banking from commercial banking, took the country off the gold standard, and established deposit insurance through the FDIC. Reform and regulation of the stock market began with the Securities Act of 1933 and was made permanent with the creation of the Securities and Exchange Commission (SEC). The SEC oversaw the operation of securities markets and required publicly listed firms to make regular and accurate information available to investors. Regulation in banking and securities was, in large measure, a response to the depression itself, and reflected the concern of the public and policy makers that something was seriously wrong with the economic system.

The regulations instituted later in the New Deal were a response to larger social goals rather than an immediate reaction to the depression. The Wagner Act of 1935, which created the National Labor Relations Board, was a major triumph for organized labor. The NLRB created a mechanism through which labor unions could gain official recognition and enter into bargaining with employers. In 1936, organizational battles in the steel and automobile industries led to a series of massive strikes. In 1938, the Fair Labor Standards Act created a national minimum wage and standards for overtime and maximum hours legislation. Labor market regulation reflected the important role that labor, organized and otherwise, had come to play in the New

Deal.

The field of public works was an area of both national and federal programs, and one with a much larger impact on the budget. The Public Works Administration (PWA) set out to help the economy recover and to improve national resources through infrastructure investment. Massive projects begun under Hoover, like Grand Coulee Dam, Hoover Dam, and Fort Peck Dam were brought to completion under the PWA. The Tennessee Valley Authority and the Bonneville Power Authority brought electricity and flood control to the Tennessee and Columbia river valleys, and a permanent federal government presence in the generation of electrical power. Billions of dollars were spent on dams, highways, bridges, water systems and other public projects.

New Deal programs in agriculture involved relief and regulation. The Agricultural Adjustment Administration was created in 1933 to raise farm prices and assist farmers. It did so by paying farmers to reduce the amount of crops that they planted and, through the Commodity Credit Corporation, directly purchasing farm products. The AAA was financed through taxes on food processing. When the Supreme Court declared the processing taxes unconstitutional in 1935, Congress responded by funding the program from general revenues in the Soil Conservation and Domestic Allotment Act of 1936 and a second Agricultural Adjustment Act in 1938. Crop allotments were a distinctly “federal” program. National officials set national annual crop output targets, but the negotiation of contract for crop restriction by individual farmers was left to committees of farmers and extension agents organized at the county level. Because of its structure relief for agriculture largely took the form of relief for large and wealthy farmers, who stood to gain the most from higher farm prices and payments for crop restrictions, rather than assistance for poor, small, and marginal farmers, and regulation of crop output.

By far the largest New Deal program were the relief programs, designed explicitly to deal with the suffering caused by the depression. The Federal Emergency Relief Administration (FERA) was created in the first hundred days and charged with assisting state unemployment relief programs. FERA was given a budget of $500 million for two years. Because there was no national welfare system in place, FERA worked with state and local relief offices. It soon became apparent that the relief problem was far larger than Congress thought. In the winter of 1933/34, FERA organized the Civil Works Administration, which put 2 million people to work, half from the relief roles and half from the unemployed not receiving relief. By the summer of 1935, when FERA was replaced by the WPA and the Social Security programs, it had spent over $4 billion dollars and provided relief to an average of 2 million families each month.

In 1935, the temporary relief administration put in place with FERA, was overhauled. The new system had two parts. The permanent component was put under the Social Security Board and consisted of Old Age Insurance (Social Security – a national program), Unemployment Insurance, Aid to the Blind, Old Age Assistance, and Aid to Dependent Children; all programs administered jointly by the national, state, and local governments. The "emergency" relief programs continued in the Works Progress Administration and other agencies created under the authority of the Emergency Relief Appropriations Act of 1935, including the National Youth Administration, and the Rural Electrification Administration, and continued funding for the Civilian Conservation Corp. Through the end of the decade, relief programs provided support for roughly 2 million families every year.

IV. Accomplishments and Legacies

In one of his famous fireside chats, FDR declared the goals of the New Deal to be "relief, recovery, and reform." Whether the New Deal promoted or retarded the American economy's recovery from Great Depression is a question that will probably never be answered. Viewed purely as an economic recovery program, the New Deal was filled with contradictions. The NRA encouraged businesses to raise prices and the AAA encouraged farmers to raise prices, which would have reduced, not increased, consumption. It hoped that higher profits would encourage businesses to increase employment, but at the same time FERA offered relief benefits that kept some workers off the labor market. The FDIC increased depositor confidence and all but eliminated banking panics after1933, but uncertainty over the direction that regulation of banking and securities markets surely reduced the amount of investment in new plants and equipment in 1934 and 1935. The New Deal probably promoted and retarded recovery simultaneously. Economic historians have also debated whether relief, recovery, and reform or political interests influenced New Deal spending, a literature reviewed in Wallis, 1999.

On the relief front the New Deal was an unparalleled success. The various New Deal programs provided assistance to an average of 2 million families each month. Not every person in need was reached, but millions were. The Social Security Act established a permanent American welfare system, providing for insurance in old age and assistance for the needy of any age. Again, the system failed to cover everyone, but it was an significant accomplishment nonetheless. How much reform the New Deal accomplished often depends on the speaker. There is no doubt that the New Deal had very small effects on the distribution of income, the extent of poverty, or long standing differences in income between regions and races. A liberal historian like Barton Bernstein believes that the New Deal was a missed opportunity for wider and deeper reforms of the American economy, while a conservative economic historian like Robert Higgs believes that the New Deal was reform run riot. What cannot be denied is that the reforms in banking and security regulation, social welfare policy, agricultural price supports, and labor market regulation are legacies of the New Deal today.

Perhaps the greatest accomplishment of the New Deal was the ability of the American people and political system to adapt. The 1930s were a decade of world wide depression that produced political reaction and oppression throughout the world, ultimately leading to World War II. The United States was able to face the economic crisis and remake its system of government in a constitutional and orderly manner. Amid contention and debate, the American political system delivered a New Deal for the American people.

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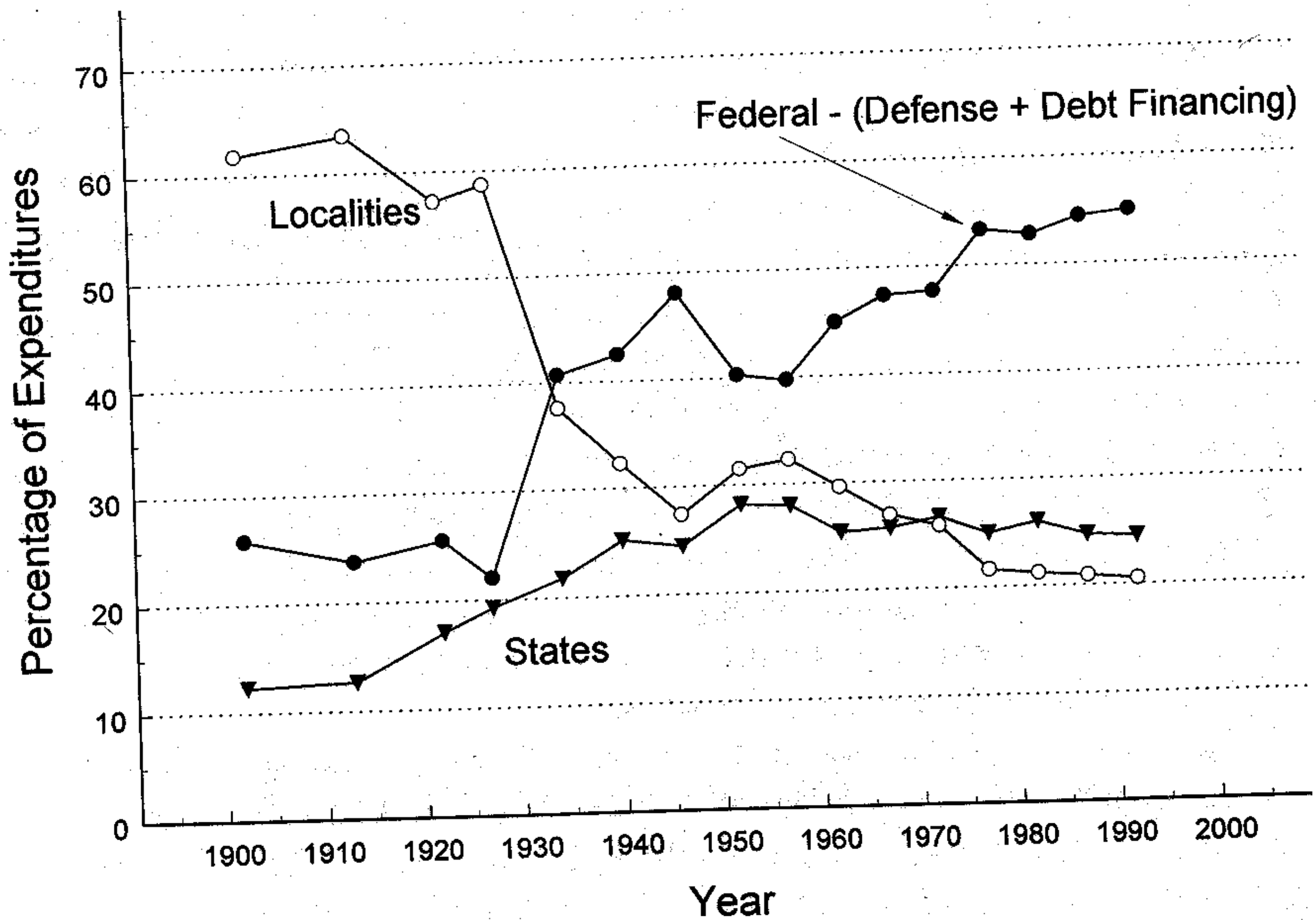

Fig. 5.2 Shares of domestic expenditures: intergovernmental grants attributed to granting government, 1902–92

Sources: 1902–82, U.S. Census of Governments (1985); 1987 and 1992, Advisory Council on Intergovernmental Relations (1995).

Note: Federal domestic expenditures are total federal expenditures minus expenditures for defense, international relations, and interest on the government debt.