

# The Great Depression and New Deal: A Primer

- The Great Depression was truly 'Great'



**Fig. 3** Real GNP (billion 1990 dollars), 1900–1995

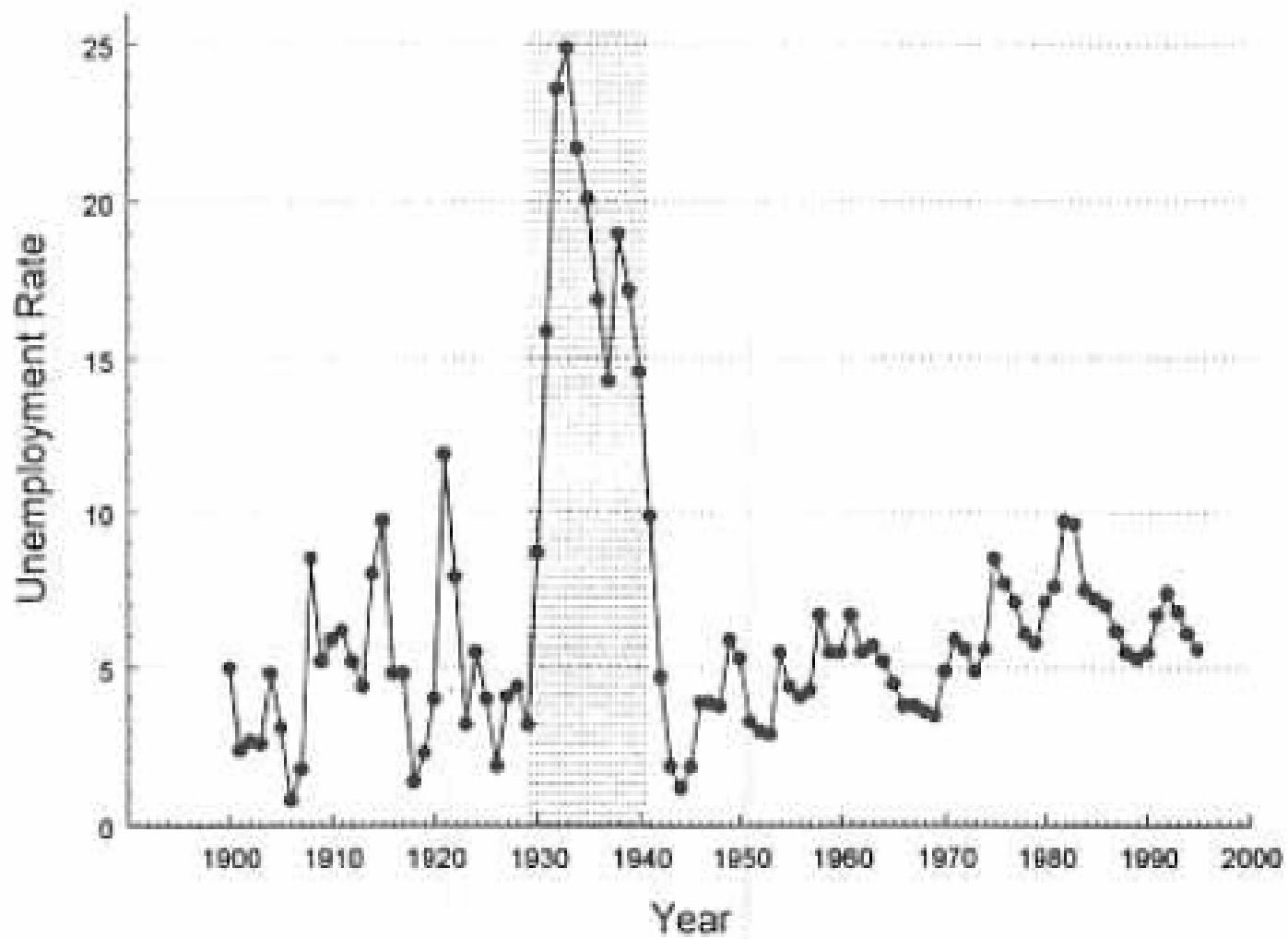


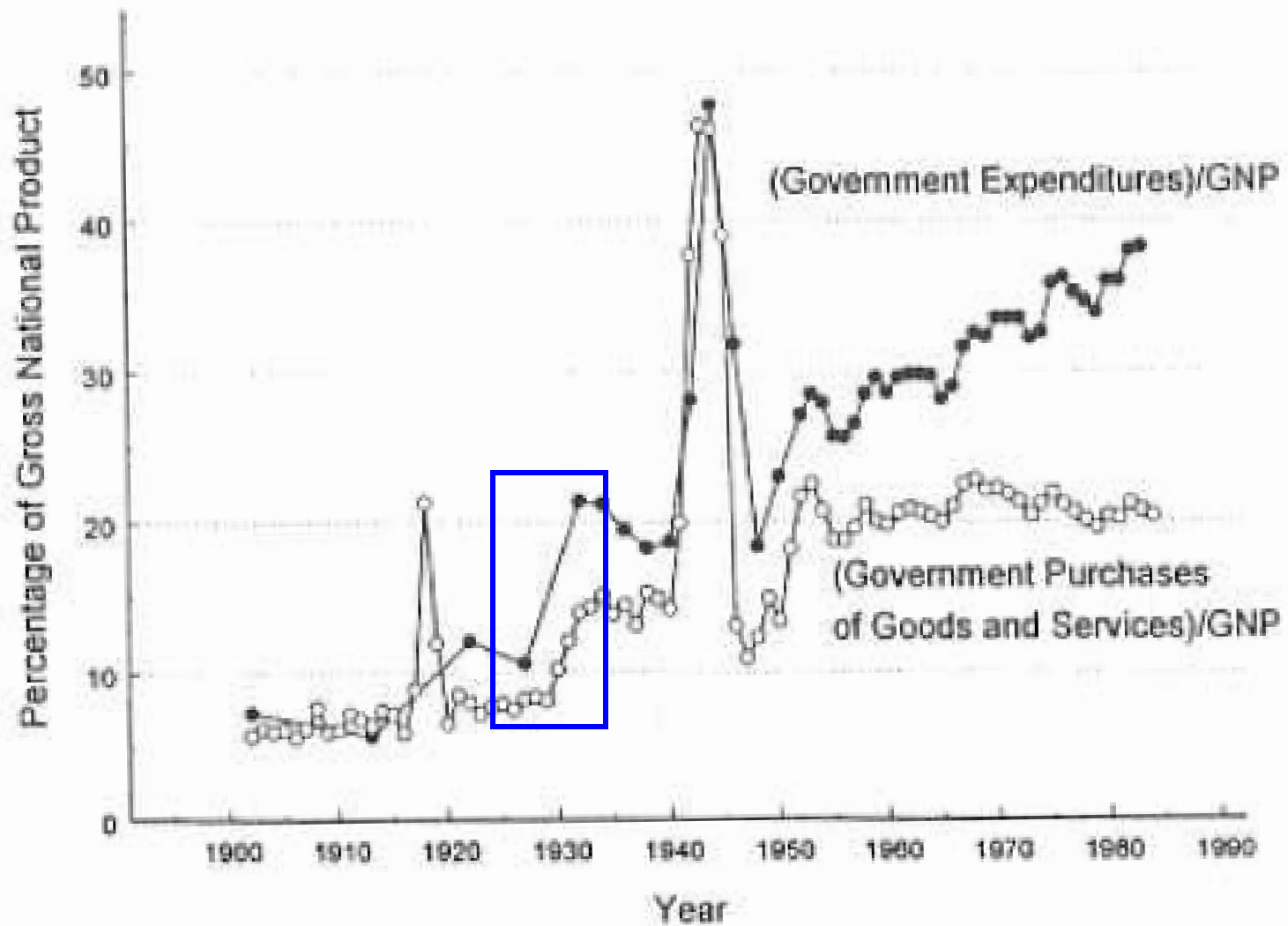
Fig. 5 Unemployment rate. 1900–1995



Fig. 4 Consumer price index, 1900-1995 (log scale; 1990 = 100)

Source: 1996-1999 U.S. Economic Outlook

- It is usually associated with a sharp rise in the size of government.



**Fig. 1 Government (national, state, and local) as a share of GNP, 1902–84**

Year	All Government Expenditure as Share of GNP	Annual Growth Rate Between Observations	
		One Period	Two Periods
	(1)	(2)	(3)
1840	5.0%		
1902	7.8%	0.729%	
1913	7.5%	-0.4%	0.562%
1922	12.6%	5.9%	2.4%
1927	12.8%	0.4%	3.9%
1934	17.4%	4.4%	2.7%
1940	17.9%	0.5%	2.6%
1946	29.5%	8.7%	4.5%
1952	28.5%	-0.6%	4.0%
1957	28.6%	0.1%	-0.3%
1962	29.2%	0.4%	0.2%
1967	30.8%	1.1%	0.7%
1972	31.5%	0.4%	0.8%
1977	32.8%	0.8%	0.6%
1982	36.1%	1.9%	1.4%
1987	37.0%	0.5%	1.2%
1992	37.5%	0.3%	0.4%
1902 to 1940		2.2%	
1902 to 1952		2.6%	
1940 to 1992		1.4%	
1952 to 1992		0.685%	



Year	All Government Expenditure as Share of GNP	Annual Growth Rate Between Observations	
		One Period	Two Periods
	(1)	(2)	(3)
1840	5.0%		
1902	7.8%	0.729%	
1913	7.5%	-0.4%	0.562%
1922	12.6%	5.9%	2.4%
1927	12.8%	0.4%	3.9%
1934	17.4%	4.4%	2.7%
1940	17.9%	0.5%	2.6%
1946	29.5%	8.7%	4.5%
1952	28.5%	-0.6%	4.0%
1957	28.6%	0.1%	-0.3%
1962	29.2%	0.4%	0.2%
1967	30.8%	1.1%	0.7%
1972	31.5%	0.4%	0.8%
1977	32.8%	0.8%	0.6%
1982	36.1%	1.9%	1.4%
1987	37.0%	0.5%	1.2%
1992	37.5%	0.3%	0.4%
1902 to 1940		2.2%	
1902 to 1952		2.6%	
1940 to 1992		1.4%	
1952 to 1992		0.685%	

- Whether government was growing faster in before 1930 than after is problematic.
- What is clear is that national government expenditures grew sharply during the 1930s, grew more sharply during WWII, and after 1950 leveled off to a very steady share of GDP, between 19 and 22%.

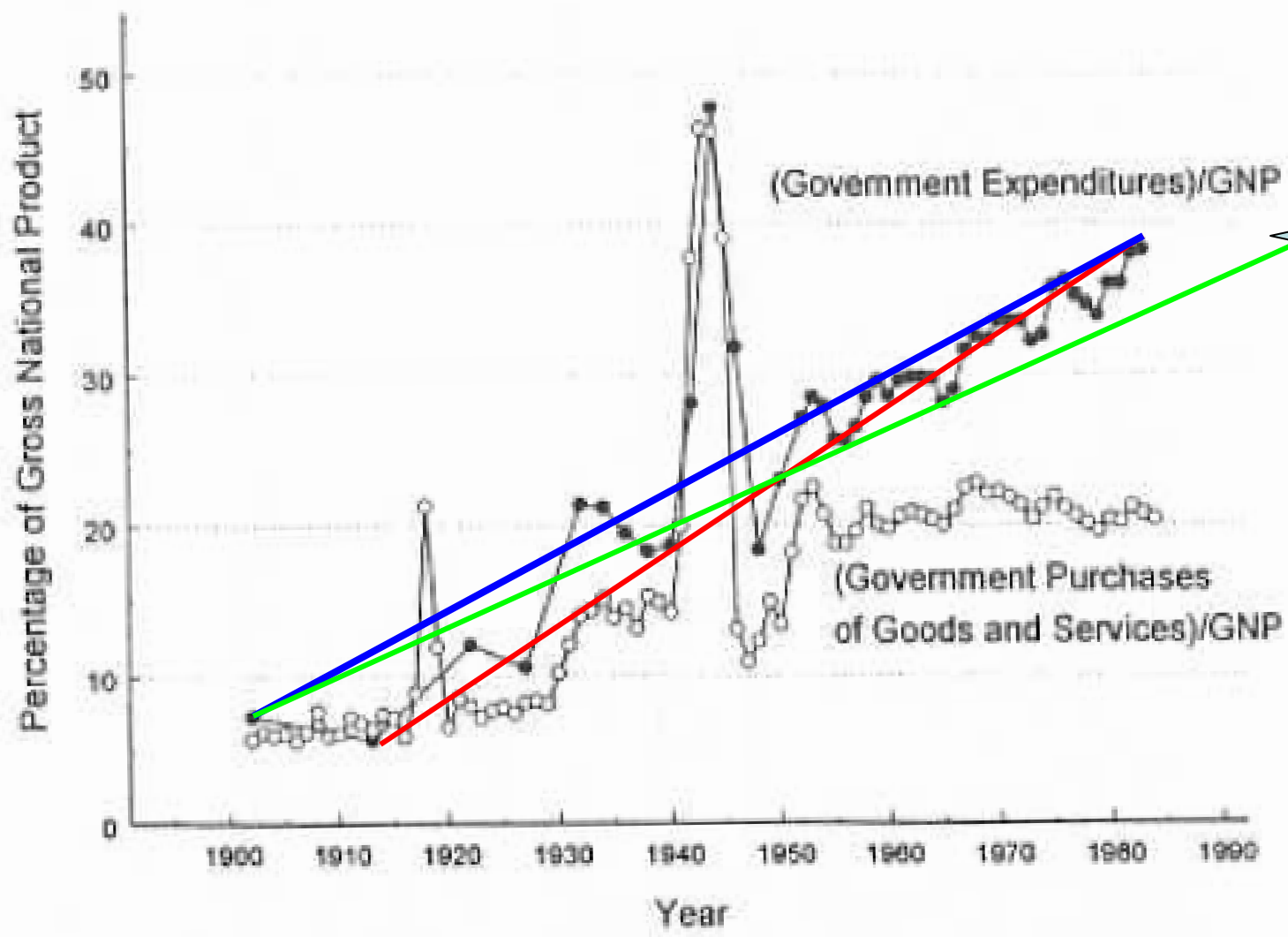
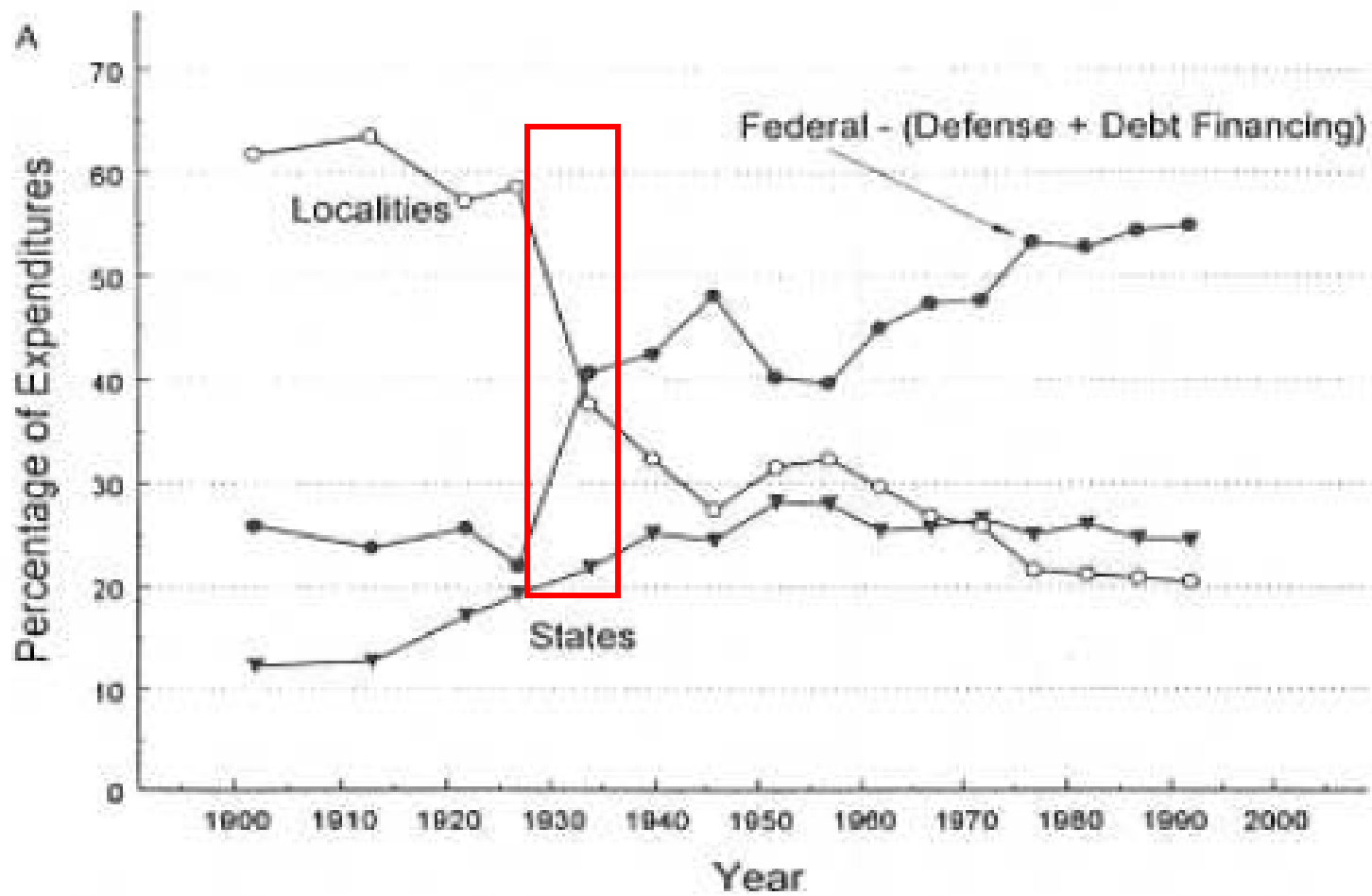
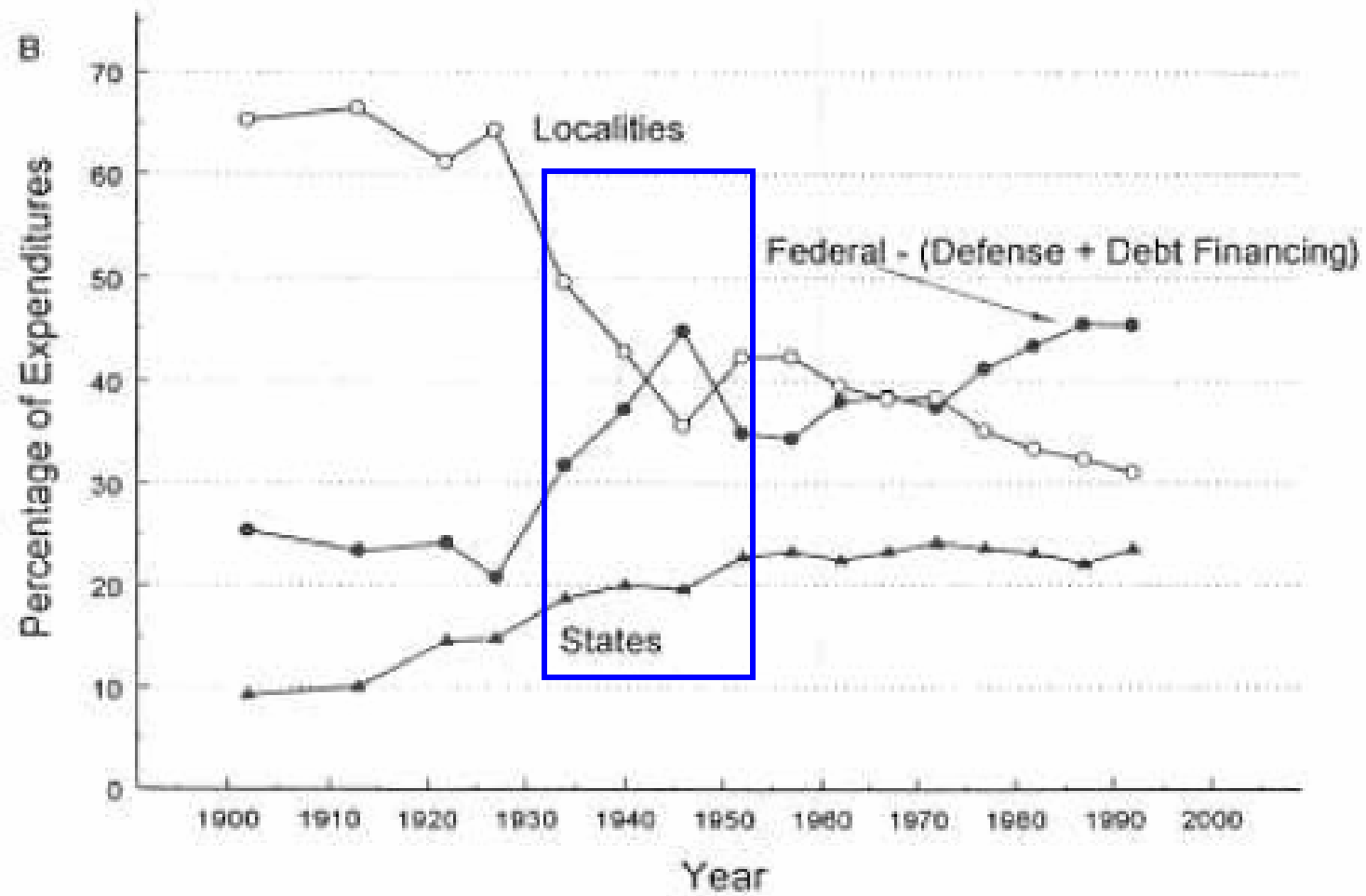


Fig. 1 Government (national, state, and local) as a share of GNP, 1902-84

- During the New Deal, the national government expanded largely through the use of grants, particularly for relief.
- So it matters how we measure expenditures and grants, whether the grants are attributed to the granting or receiving government.
- The granting government collected the taxes, the receiving government administered the expenditures.



Expenditures attributed to granting government



Expenditures attributed to receiving government

- The effect on the size of the national government was permanent (in the sense that it has lasted until the beginning of the 21<sup>st</sup> century),
- Both in terms of expenditures as a share of GDP and national expenditures as a share of all government expenditures.
- In that sense, the New Deal was definitely a “defining moment.”

- The growth of the national government was not just the result of the New Deal, however, WWII also made a permanent impact on the structure of government.
- In large part this resulted from the dramatic expansion of military expenditures as a share of GDP.



	National Government Expenditures			
	As Percentage of GNP			
	GNP	GNP	GNP	GNP
	Budget %	Defense %	Interest %	Debt %
1840	1.43	0.78	0.01	0.7
1844	1.98	0.78	0.10	2.0
1854	1.68	0.44	0.08	1.4
1865	8.85	5.63	1.42	32.0
1875	3.67	0.52	1.43	29.4
1885	2.40	0.37	0.48	13.9
1895	2.78	0.55	0.23	7.8
1905	2.19	0.56	0.09	4.3
1915	7.90	3.08	0.36	13.1
1925	3.66	0.53	0.96	22.5
1935	8.62	0.75	1.03	39.4
1945	24.88	10.27	1.70	94.1
1955	17.99	7.87	1.69	66.3
1965	19.25	8.25	1.72	44.4
1970	19.68	8.04	1.34	29.2
1975	20.24	5.44	1.46	26.1
1980	21.62	5.08	2.02	26.7
1985	22.68	6.14	2.96	36.9
1990	22.02	5.46	3.20	43.9
1995	21.00	3.86	3.12	49.5

- The other effect has been the growing share of GDP devoted to paying interest on the national debt.
- WW II was the first war after which the national government did not pay down the debt, and then in the 1980s began expanding debt.

# Real and Nominal Interest Rates On National Debt

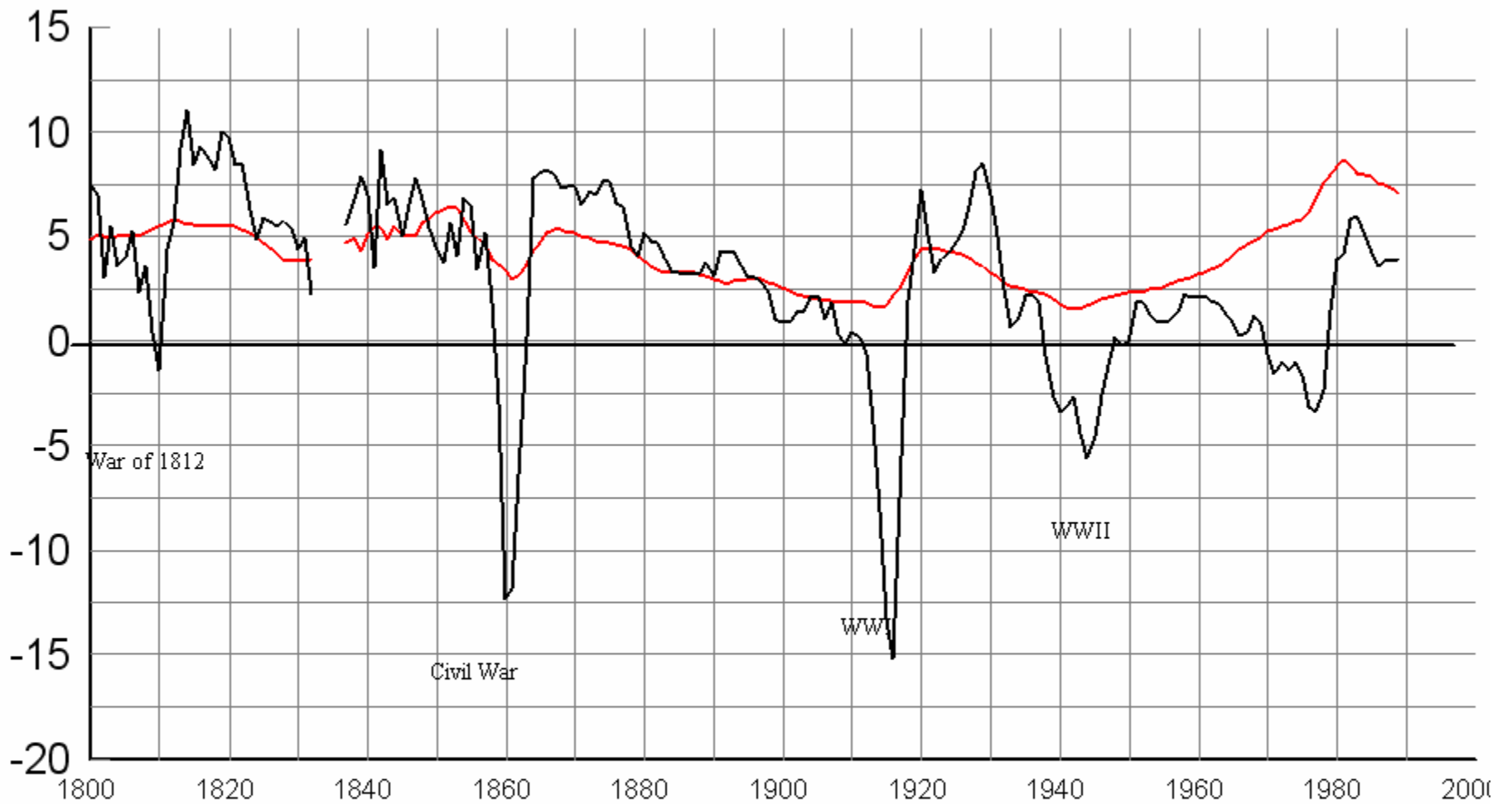
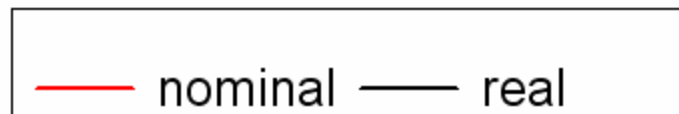
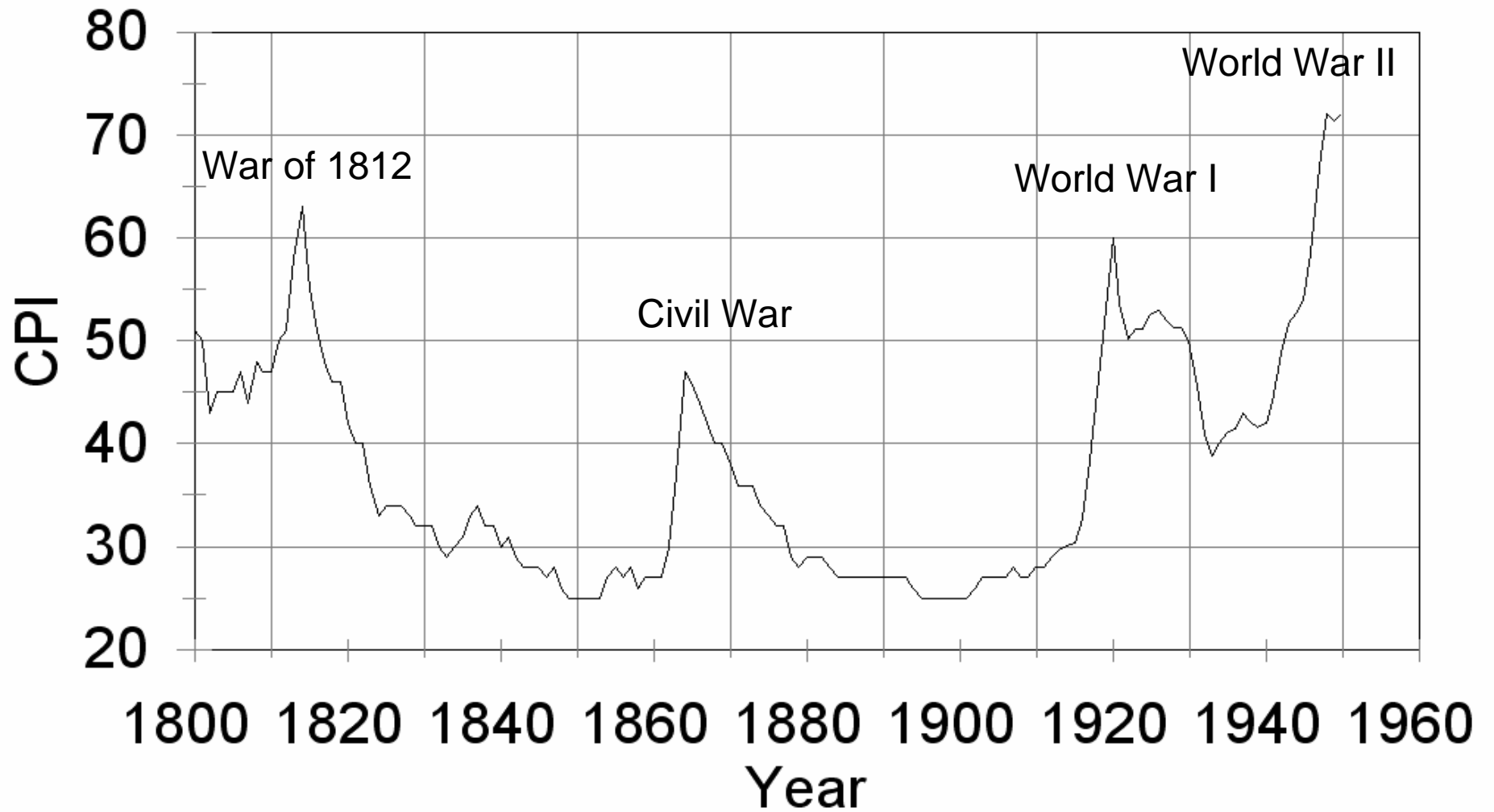


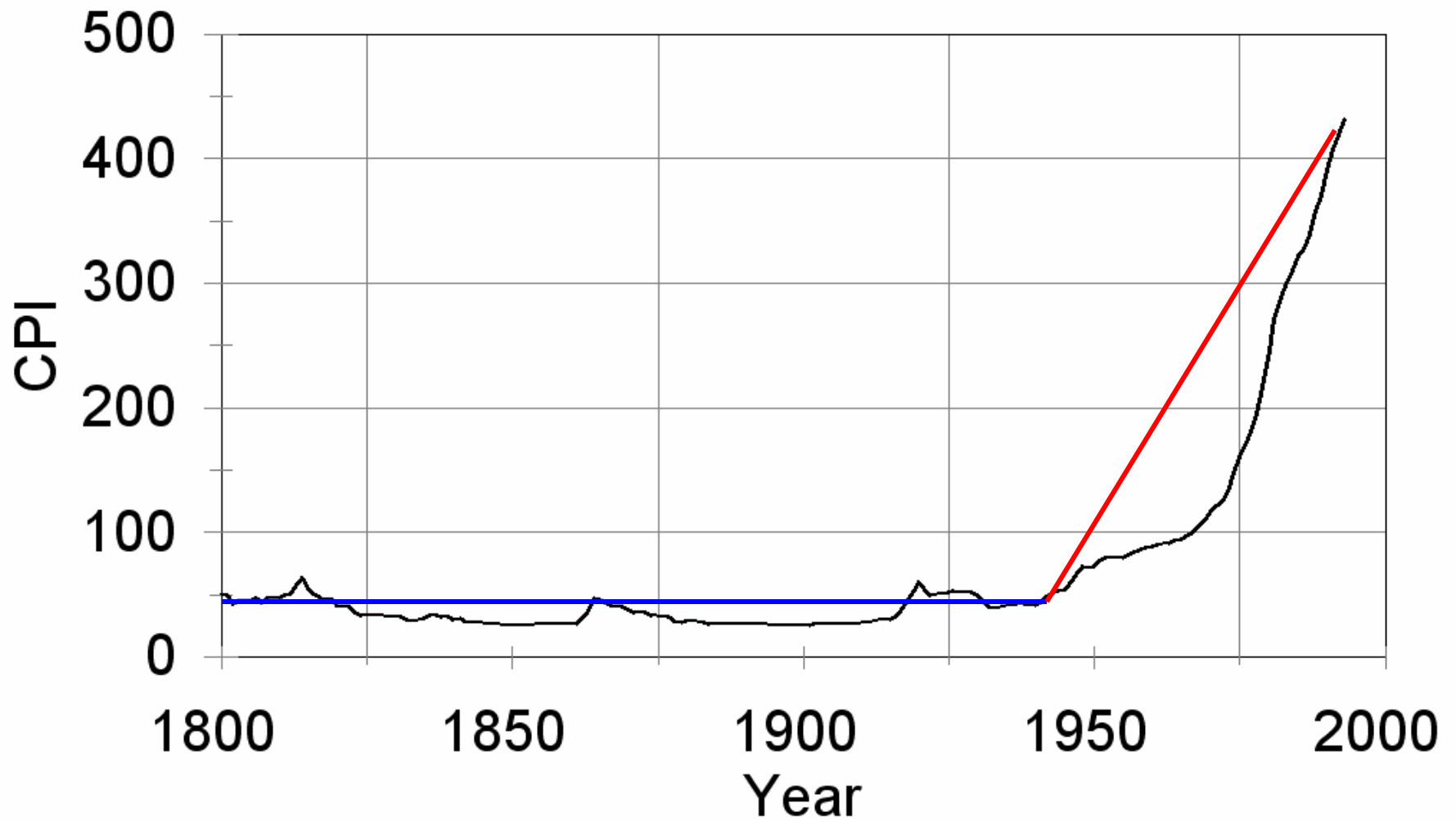
Figure 2



# CPI 1967=100



# CPI 1967=100



- Whether the changing fiscal and monetary policy of the late 20<sup>th</sup> century, which is a clear departure from anything that went before, is a result of the New Deal, is still an open question.

# INCOME AND OASDHI SHARE OF ALL REVENUE

## PROPERTY TAX AS SHARE OF ALL REVENUE

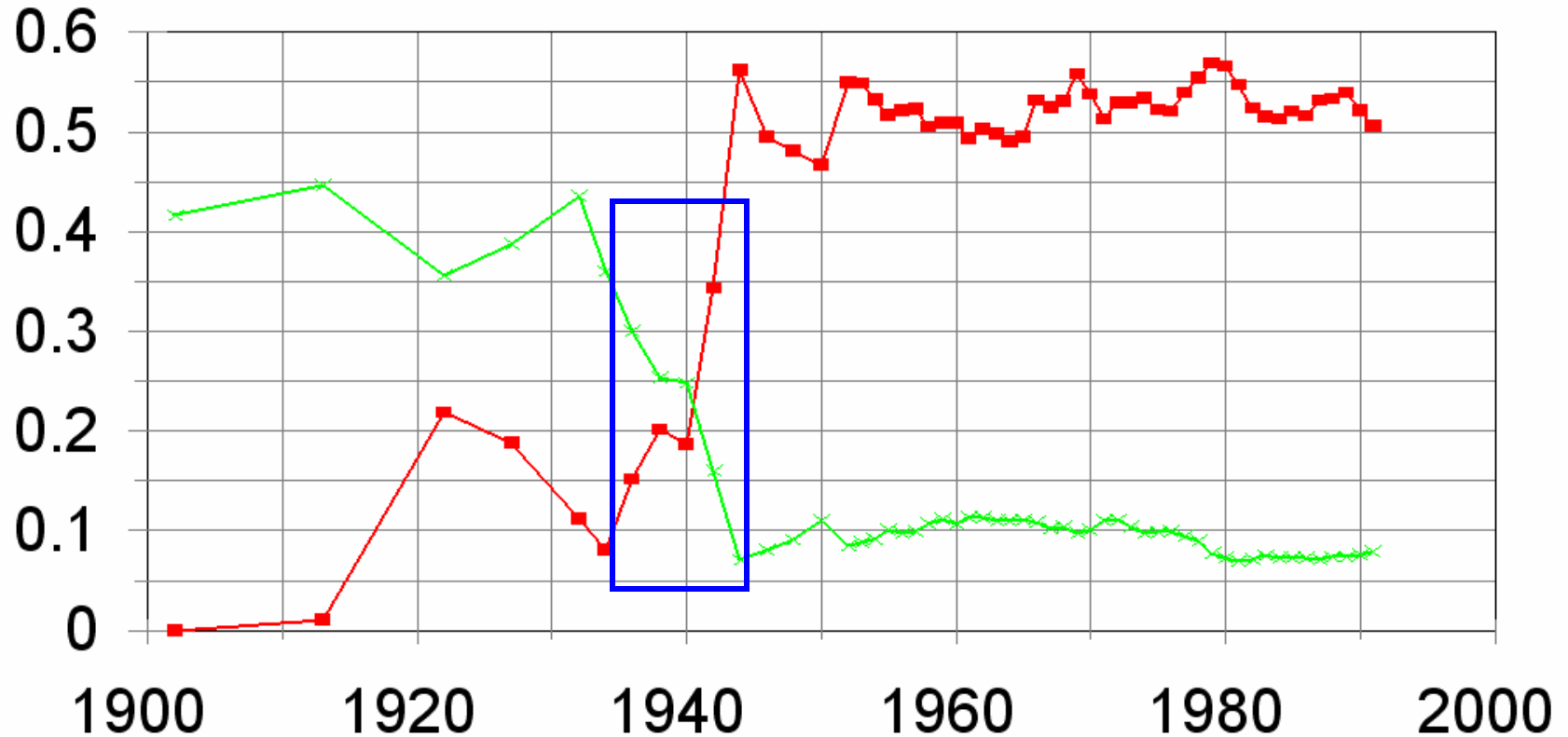


FIGURE 1

—■— INCOME TAX SHARE      —x— PROPERTY TAX SHARE

# Democrats

- The Democrats had not been the majority party since the early 1890s, with a brief period in the late 1910s when the Republicans self-destructed (Bull Moose Party and TR).
- So when the Depression began in 1929 and continued to deepen through 1933, the Democrats were assured a victory.
- Hoover LOST, rather than Roosevelt winning.



- Once they were elected, however, they had to decide how to govern.
- On the day Roosevelt was inaugurated (he was the last president to be inaugurated in March), a special session of Congress met.
- While the new members of the House of Representatives were still being sworn in and finding their seats, a page came from the Senate with the “emergency banking bill”
- The House passed it by acclamation.

## The First Hundred Days

- The special session of Congress produced a wave of legislation:
- Banking (Emergency Banking Act, ??)
- Unemployment Relief (FERA)
- Agriculture (AAA and price supports)
- Industry (NIRA)
- Power generation (TVA)

- Fiscally, by far the most important programs were the relief programs.
- Although the initial allocation was \$500 million for 2 years (GDP was \$50 billion), the relief program ended up spending roughly \$2 billion a year from the summer of 1933 to 1939.
- 4% of GDP!!!

TABLE 2  
 NATIONAL GRANTS TO AND EXPENDITURES WITHIN STATES, UNDER  
 COOPERATIVE ARRANGEMENTS WITH STATES, 1932-1940  
 (millions of dollars)

<i>Year</i>	<i>Census</i> (1)	<i>Total</i> (2)	<i>Relief</i> (3)	<i>Works</i> (4)	<i>Agric</i> (5)	<i>Hwy</i> (6)
1932	214	250	—	108	13	186
1933	190	432	154	196	12	161
1934	1,803	2,857	2,126	356	303	219
1935	2,197	3,649	2,221	459	664	272
1936	1,015	3,969	2,343	618	573	221
1937	818	4,273	2,405	624	636	331
1938	790	3,518	2,047	504	431	217
1939	1,031	4,794	2,671	691	743	185
1940	967	3,922	2,188	521	865	171
Expenditure Growth 1932 to 1940	—	74.5%	44.4%	8.4%	17.3%	0

Source: Federal Bureau of Investigation, *Statistical Abstract of the United States*, 1941, p. 1024.

# The Great Barbecue

- A simple way to think about the “first” New Deal is as a great barbecue.
- Everyone was invited, the Democratic party was like a big open tent, trying to find a way to secure its position as the majority party.
- In the process it included programs and initiatives that were contradictory.

- Promoting economic recovery, increasing output, and **raising** prices???
- Alleviating the needs of the unemployed and **raising** food prices and restricting agricultural output???
- Serving the interests of agriculture, labor, **and** employers???
- Transferring or redistributing resources to **everyone**???

# The Second New Deal

- The Democrats won a sweeping victory in the off year elections in 1934, consolidating their control of the Senate.
- In 1935 they began adjusting the major New Deal programs.
- The NIRA, which had been declared unconstitutional, was largely abandoned, although pieces became part of the legacy (Wagner Act, NLRB, FLSA)

- The relief programs were reorganized under the Social Security Act:
  - OASI
  - UI
  - Categorical Relief
    - ADC/AFDC/TANIF
    - Old Age Assistance
    - Aid to the Blind



- The Agricultural Adjustment Act/Administration (AAA) was declared unconstitutional,
- But resurrected immediately as through the Soil Conservation and Domestic Allotment Act.
- Price supports and output restrictions were funded by general revenues rather than a tax on food processors.

- The FDIC
- The SEC
- Glass-Steagall and a series of bank reforms