Full Circle: the New Deal and the Great Recession

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Full Circle: the New Deal and the Great Recession

An Honors Thesis submitted in partial fulfillment of the requirements for Honors in History.

Donald Lewis Roberts

Under the mentorship of Dr. Craig Roell

Abstract:

In this paper I will show how the mindset of liberalism has evolved since the Great Depression. It merged with progressive movement of the late 19th and early 20th centuries to become a politically left ideology that intertwined with power hungry politicians who perverted liberalism and used sudden economic and social phenomena to engineer a new type of American government. One that has constantly expanded, reaching and entrenching itself further and further into the lives of Americans, starting with President Franklin Roosevelt. Roosevelt’s work would be expanded in the name of progress and equality by several of his successors, such as Lyndon Johnson, Richard Nixon, Bill Clinton, and Barack Obama. These policies failed to provide much of either. In fact they retarded progress and spread inequality as many of those of who the policies were intended to help found themselves wrapped up in webs of dependence and regulation. This paper provides insight into how such an illusion has been maintained for so long.

Thesis Mentor______________________    Honors Director______________________
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I. Progress
   The first section will focus on the backdrop to Franklin Roosevelt’s ascension. The progressive movement will be explained. Economic circumstances and global relations that contributed to the public’s eventual acceptance of Roosevelt and his unconventional ideas, such as the policy of the Federal Reserve during the 1920s, the condition of the agricultural sector, and the trade wars with Europe.

II. Panic
   This section will focus on the onset of the Great Depression, its potential causes as well as the cause Roosevelt contributed it to, underconsumption theory. The widespread dissatisfaction with industry and contempt for a supposedly inactive government will be discussed. Roosevelt’s New deal will be introduced as well as the four acts of legislation, the Banking Act of 1933, the Social Security Act, the Housing Act, and the Fair Labor Standards Act, that will be the crux of the argument for this paper.

III. Legacy
   In this section I will follow the four acts previously introduced into Kennedy, Johnson, and Nixon administrations. The expansions that these presidents added to Roosevelt’s framework will be detailed as well as consequences of said expansions.

IV. Crisis
   In the final section I will continue tracking the legislation and its expansion into the twenty-first century. I will detail the effects of government expansion on the American economy, specifically on its contributions to the Great Recession.
I. Progress

On March 4, 1933, President Franklin Delano Roosevelt delivered his inaugural speech to the American people, saying “I shall ask the Congress for the one remaining instrument to meet the crisis—broad Executive power to wage a war against the emergency”\(^1\) Of course, he was referring to the worst economic downturn in American history, the Great Depression. Roosevelt made good on his promise; throughout his presidency he would enact the most far reaching legislation the United States had ever seen. With this legislation FDR would completely transform the US presidency. This massive plan to rehabilitate and transform the economy, which he dubbed the New Deal, affected virtually every industry in the United States and set the foundation for an ever expanding central government. Since its implementation, the New Deal has been lauded as a fundamental step towards the recovery from the depression. Through media manipulation, political warfare, and the persistence of various economic fallacies, Roosevelt and like-minded political descendants have given the New Deal undeserved praise for subsequent economic stability and shielded it from justified and necessary critique. The New Deal, in reality, impeded recovery during the thirties and laid the groundwork for various setbacks in the economy to follow. By putting so much faith in the federal government to regulate and safeguard the economy, the New Deal built the biggest “too big to fail” entity of all, and through careless government spending and corruption, created the weak economic environment that troubles Americans to this day.

The Great Depression was the single most severe economic downturn in American history. The shock of it spread around the world, global trade reduced, productivity declined, and massive unemployment spread all across the world. In the United States the unemployment rate reached well into the 20 percent range and remained there for much of the 1930s. Public panic and outrage over why it had happened and why a solution hadn’t been found created a tense political environment. Many causes for the depression were theorized during the 1930s, yet the true trigger for this massive decline in prosperity will probably never be determined. In fact, it is likely, yet controversial to say, that there was no one cause, no true catalyst for the Great Depression. It is far more likely that the Great Depression would have been just another mild economic downturn without the exacerbating factors surrounding the time. However, there is one explanation for the Great Depression that has stuck, and rather astonishingly, I might add.

Many who lived through the onset of the depression and the decline of business laid the blame on business itself. To be more specific, many felt that the large national corporations of the day had kept wages low and prices high to fill their own pockets, never minding the laborers or poor people; they were greedy, corrupt, and frivolous individuals who bankrupted the economy for self-gain. This became known as the Underconsumption Theory. Because of the low wages they were making, regular Americans, the middle class and the working class, were barely able to put food on their table much less go out and buy all of the nice things that were being produced. Wealth inequality, now used as a barometer for economic justice by the descendants of Underconsumption Theory, soared during the 1920s. The top 0.1% of the population had accumulated 23% of all wealth in the nation in 1928. According to

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3 Bryce Covert, “Wealth Inequality Is Now As Bad As It Was During The 1920s,” *ThinkProgress.org*, March 31, 2014.
underconsumption believers; stingy bankers gave out loans at ridiculously high interest rates to people who would surely default on them and when enough of them did at the same time, the financial markets collapsed. Underconsumption believers berated all of this corruption and fraud going on and the government’s inaction about it. They were convinced that these enormous and irresponsible businesses were running around destroying lives and livelihoods and the government just stood back and let them; the politicians were on the take, they assumed. These frustrations were pacified in 1932 when a well-spoken witty New Yorker jumped in the race for the presidency. He was an avid subscriber to underconsumption thinking and he promised to reign in big business, end the depression, put everyday Americans back to work, and fix the economic system that the rich businessmen supposedly had rigged against them.

America has come a long way since the Great Depression, and a great deal of research has been done on the Depression, its causes, and the recovery.

Underconsumption Theory has failed to pass the tests of historical and economic study, yet it has persisted. In high-school textbooks, college textbooks, popular culture, and the media, people constantly point to the immoral business practices and the supposed government inaction of the 1920’s as the trigger of the Great Depression; and to the New Deal as the savior of the American economy. The intellectual contortionism required to validate this relentless myth is astonishing, but it is explainable. Franklin Roosevelt was a transformative president, not only in regards to matters of government regulation and oversight but in executive power. Roosevelt’s charm, wit and grand promises magnetized people to him. People began to drift their focus away from what their representatives in Congress were doing and more towards their president. Roosevelt won his 1932 election against incumbent Herbert Hoover soundly. Despite the logical flaws in Roosevelt’s promises, flaws that Hoover pointed out, the fear and anxiety created by the
onset of the depression made voters fearful and desperate for someone to alleviate that fear and if that someone was a smooth-talking polio-stricken charmer from New York, then so be it.  

Roosevelt would come to lead the process of government expansion, but he did not start it. This build up had been a long time coming, primarily beginning with the progressive movement of the late 19th and early 20th centuries, when various factions of the American population formed primitive special interest groups and lobbied federal and state governments for special laws. In some cases, as mentioned above, these laws were meant to reign in big business. In others, these laws were meant to protect the disadvantaged or exploited. These various and often unrelated movements culminated into Prohibition, which proved to be a demonstrative example of how bad things can go when a government oversteps reasonable boundaries. Obviously progressives ignored this evidence and instead decided to take a slower road to the empowerment of the government so that it could fix all the ills of society. Despite the crumbling of blatant progressivism during the twenties, the movement came roaring back, ironically at the end of the 1920s. This new progressivism was focused on fixing the economy, which of course, they believed had been caused by government inaction during the twenties. The fractious nature of the early progressive movement was gone and replaced by a consolidated movement, one with a common goal, economic stability. Tragically this would be, something they would task the federal government to do and even more tragically, something the government would indeed do.

The neoprogressive movement that reigned in the early thirties was brought on by two main causes; the Great Depression and Franklin Roosevelt. The Great Depression provided the
perfect situation to demand someone fix all the problems. Real GDP dropped every year from 1930 to 1934, with 1933 dropping a whole 12 percent. Unemployment, barely below 10 percent in 1930 spiked to 23 percent in 1932, reaching a peak of 25 percent in 1933. Franklin Roosevelt was inaugurated on March 4th of that year and he fully intended to fix the economy according to his progressive ideology, and the American people were largely behind him. In his precedent setting first hundred days in office, Roosevelt managed to get the Civilian Conservation Corp (CCC), Agricultural Adjustment Administration (AAA), National Industry Recovery (NRA), Public Works Administration (PWA), and the Tennessee Valley Authority (TVA) up and running. All of these programs were designed to allocate government money into a variety of relief programs. The CCC provided a specific type of unemployed workers with temporary jobs on environmental projects. The AAA subsidized agricultural products. Both, the NRA and the PWA provided jobs by paying for infrastructure products around the country. The Tennessee Valley Authority was a location specific administration that aimed to provide jobs to the unemployed as well as irrigation and electricity to the local population.

Roosevelt’s landslide victory in the 1932 general election, mirrored across the county by congressional democrats, meant Roosevelt had Congress largely under his control during all of this. Most would not dare speak ill of Roosevelt’s ideas. To do so would have been political suicide. Roosevelt had won 88 percent of the electoral vote, united the Democrat party which had been plagued by infighting during the 1920s. He had promised the American people recovery, and they believed him. Even those who saw the problems with these quick-fix programs were hesitant to speak because of their popularity among the American people. Those

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who were brave enough to do so often found themselves the target of an angry constituency and on the losing end of a reelection campaign.

Roosevelt and his New Deal ignited the neo-progressive movement that would slowly but surely envelop the federal government, touching virtually every aspect of the American economy. This movement would be exacerbated under future administrations, specifically under Johnson, Nixon, Clinton, and Obama. I will explain how each of these presidents used Roosevelts tactics and legacy to expand federal power, specifically that of the executive branch. I will demonstrate how their illusions of progress and compassion has led to a stagnant and pessimistic economic environment. And by clearing out the smoke from their tricks, I will reveal how, not helpful, but detrimental many of their policies truly were.
There are far too many aspects of Roosevelt’s presidency to cover properly given the constraints of this paper. Roosevelt’s most popular short-term projects will be covered generally, but I will focus specifically on four major long-term acts, the Fair Labor Standards Act, the Social Security Act, the Banking Act of 1933, and the National Housing Act. These four monstrous pieces of legislation have become entrenched within their respective industries and on the groundwork laid by each of them, mansions of regulation have been built and expanded by future presidents. Roosevelt worked hastily on his plans, using a broad range of techniques to get his way, some unprecedented, and some down-right duplicitous. By doing so he set the dangerous precedent that has plagued the presidency since. Future presidents would include in their campaign speeches a vast amount of grand promises to the American people, including fighting for them, working for them, and creating jobs for them. In the heat of the Great Depression, these promises sounded wonderful, just as they would during President Johnson’s Great Society, and just as they would during the recent Great Recession.

On October 28, 1929 the United States’ stock market crashed, losing 11 percent of its value. The next day, the market continued its fall, losing another 12 percent. Trading volume increased drastically as investors stampeded to cut their losses and sell their stocks. The massive accumulation of stock value that that had taken place throughout the 1920s was finally revealed to be much less stable than many had believed or hoped. In fact, market wizards throughout the decade boasted, naively, it turned out, that the market’s value would only increase and that prosperity and wealth would only multiply. The tremendous wealth that was generated on Wall
Street during the twenties had many people feeling the prediction was true. It was a high that blinded people to the realities of the stock market. The stock market is a fickle mistress; she has taken many to the great heights of the American economy just to throw them off. Many history textbooks refer to this moment as the trigger of the Great Depression; however, that is a gross oversimplification. The stock market continued to tumble downwards well into the 1930s and would not reach its 1929 peak again until 1959.6

The stock market crash did not start the depression; rather it was just the first largely visible symptom of it. Many of the problems associated with the Great Depression did not start until the early 1930s. The towering amount of value that collapsed as a result of the stock market crash was made on a weak foundation. During the mid-twenties, the Federal Reserve kept interest rates lower creating an inflationary effect on the money supply. This caused an incentive for frivolous and unsound investments. During the latter half of the decade, the Federal Reserve tried to choke off this dangerous spending, but it was too late. When the Depression set in the Federal Reserve tightened the money supply leading to a shortage in necessary investment in business. The stock market would continue its tragic tumble throughout most of the twenties along with Gross Domestic Product (GDP). Between 1929 and 1932, GDP contracted by approximately 30%.7 By that time unemployment had risen to almost 25%.8 The role of the FED is often left out or minimized in the general education of the Great Depression, presumably because of the complexities of its operations. Nevertheless, this quasi-governmental organization

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had gutted investment and left people with a bad memory of private business and, for the most part, has gotten away with it.

Perhaps, the most foretelling signs of the problems to come was in the agricultural sector. During the first few years of World War I, before the United States became involved, American farmers made massive amounts of profit thanks to rising prices. Obviously, Europe found it hard to feed itself while engulfed in hellish warfare; so the United States became the Europe’s main source of food. Following the end of the war prices began to fall as Europe rebuilt itself. American farmers were not happy about this, as one would imagine, and began to lobby Congress for ways to inflate prices. President Coolidge, who led the executive branch from August 1923 to March 1929, refused federal subsidies to farmers, but his successor, Herbert Hoover, made it a priority, calling an emergency session of congress and getting the Agricultural Marketing Act passed. The Agricultural Marketing Act created the Federal Farm Board which used a federal budget to subsidize farmers’ surplus products and make loans to farmers. The goal, as stated by the Farm Board, was to redistribute wealth from the financial sectors on Wall Street to the agricultural sectors in the South and Midwest. After the Stock Market Crash the Federal Farm Board had to use federal funds for operations, thus becoming the United States’ first relief agency. By 1931 the Board was running out of money and had more wheat than it knew what to do with. The Board then stopped buying products and instead began shifting its massive inventory to charities both in the US and abroad to fight the depression, which was global by this point.⁹

The struggle American farmers were in to maintain their high prices coupled with cheaper prices from the reemerging European markets led to the calls for tariffs. In 1930

Congress passed the Smoot-Hawley Tariff. The tariff was an answer, not only to American farmers but for many industrialists throughout the country, who lobbied Congress aggressively for help when it came to competitive international prices. It didn’t take long for the tariff to backfire, however. European countries stopped paying back war loans they had borrowed from the United States and imposed their own retaliatory tariffs on American goods. And before long, trade between countries grinded to a virtual stop—and that is what caused the Great Depression to cut so deep into not only the American economy, but the global one as well.

The active role of the Federal Reserve and the constant meddling with prices throughout the twenties casts much deserved doubt on the idea of a non-activist government and its causing of the Great Depression. But alas, rationale and logic tend to be cast aside for desperation and anxiety in times of Crisis. During the onset of the Great Depression, many wanted relief from the federal government. In studying the letters from the public to Roosevelt during the Depression, Gregory Woirol found that over fifty percent of them requested some form of government funded relief such as grants, loans, or employment programs.\(^{10}\) In the same article Woriol looked more closely at a subset of the letters that presented an economic recovery plan. More than 800 letters proposed one plan or another and Woriol noted that “government action as a solution to the depression was accepted almost as an article of Faith.”\(^{11}\)

Much of the notion that views the 1920s as a period of government retreatment is its place between two eras of massive government involvement, World War I and the Great Depression. The costs of war masked the gradual growth of the twenties. Prohibition is a prime example of just how involved the government was. Never before had the federal government overreached so far into the economy as to virtually shut down an entire industry. Of course,

\(^{10}\) Woriol, "Plans to End the Great Depression from the American Public." 572

\(^{11}\) Woirol, "Plans to End the Great Depression from the American Public."
prohibition was intended to be more of a social policy rather than an economic one, but its economic impacts, job loss, tax revenue loss, public health crises, and enforcement costs were substantial. Also, during World War I, President Woodrow Wilson enacted many programs and policies to increase industrial and agricultural production for the war effort. For example, the United States Housing Corporation was set up in 1918. It aided in planning and construction of neighborhoods in areas of the country critical to the war effort. World War I ended in 1918 yet the USHC remained in operation into the thirties, as was the case with many of Hoover’s wartime agencies.\footnote{Randall G. Holcombe, “The Growth of the Federal Government in the 1920s.” \textit{CATO Journal}, Volume 16, issue 4 (Fall 1996). Date accessed, March 21, 2017.}

All of these programs cost money. Table 1 shows the breakdown of government by function. At first glance it shows a decrease in total spending, but that is misleading. The massive drop in transportation spending as a result of the end of World War I hides the steady increase in civil functions. Table 2 details the increases of civil functions expenditure by specific category. Almost every single category experienced a double-digit growth rate during the 1920s, and as a total, civil functions were 3.12 times as expensive by 1930 as they were in 1920. There was also an increase in special interest groups during this time. As power shifted back towards the Congress and away from the president following World War I, many groups lobbied both the federal and state governments for special treatment. Labor unions made dramatic progress during this time but so did professional associations. The American Medical Association (AMA) successfully lobbied state after state to put in regulations that required medical colleges to be approved by the AMA, giving it tremendous power over the medical industry, and that power has only grown since then. Similar groups such as the American Bar Association, pursued the same goals, and most of them achieved a similar level of success. Federal Aid to states grew
from $6 million in 1915 to 109 million by 1930. This money was used for a variety of state-sanctioned public projects and since the money was coming from the federal government it allowed more federal management and oversight into state and local operations. The federal government also ramped up aid to colleges and universities as well as dispensing more money for primary and secondary education, which were traditionally a state responsibility. Of course because prohibition was a federal law, the states abdicated much of the task of its enforcement to federal agencies such as the IRS and the Justice Department. The government also began to use antitrust laws in an increasingly general manner. Under proper scrutiny it is plain to see that the vision of the 1920s as an era of government retreatment is actually a hallucination.

<table>
<thead>
<tr>
<th></th>
<th>1920</th>
<th>1925</th>
<th>1930</th>
</tr>
</thead>
<tbody>
<tr>
<td>General functions[a]</td>
<td>18,953</td>
<td>18,932</td>
<td>25,642</td>
</tr>
<tr>
<td>Military functions[b]</td>
<td>1,966,358</td>
<td>1,099,711</td>
<td>1,455,093</td>
</tr>
<tr>
<td>Civil functions less Trans.</td>
<td>426,964</td>
<td>504,891</td>
<td>775,298</td>
</tr>
<tr>
<td>Transportation</td>
<td>1,281,878</td>
<td>90,035</td>
<td>87,029</td>
</tr>
<tr>
<td>Non-functional[c]</td>
<td>1,453,747</td>
<td>1,369,446</td>
<td>1,315,742</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5,147,900</strong></td>
<td><strong>3,083,016</strong></td>
<td><strong>3,658,804</strong></td>
</tr>
</tbody>
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### TABLE 2. EXPENDITURES OF THE FEDERAL GOVERNMENT, SELECTED FUNCTIONS

<table>
<thead>
<tr>
<th></th>
<th>Thousands of 1930 Dollars</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1920</td>
<td>1925</td>
<td>1930</td>
</tr>
<tr>
<td>Law enforcement</td>
<td>10,375</td>
<td>24,246</td>
<td>51,537</td>
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<tr>
<td>Public domain</td>
<td>15,402</td>
<td>24,994</td>
<td>37,789</td>
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<tr>
<td>Commerce</td>
<td>8,077</td>
<td>14,393</td>
<td>27,354</td>
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<tr>
<td>Agriculture</td>
<td>16,644</td>
<td>26,273</td>
<td>48,824</td>
</tr>
<tr>
<td>Labor interests</td>
<td>2,065</td>
<td>4,641</td>
<td>6,863</td>
</tr>
<tr>
<td>Immigration</td>
<td>2,953</td>
<td>5,541</td>
<td>9,512</td>
</tr>
<tr>
<td>Public education</td>
<td>5,405</td>
<td>10,483</td>
<td>14,295</td>
</tr>
<tr>
<td>Public improvements</td>
<td>73,481</td>
<td>183,411</td>
<td>241,387</td>
</tr>
<tr>
<td>Territorial and local govt</td>
<td>19,964</td>
<td>38,228</td>
<td>46,367</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>155,965</strong></td>
<td><strong>334,044</strong></td>
<td><strong>485,838</strong></td>
</tr>
<tr>
<td><strong>% of Civil less Trans</strong></td>
<td><strong>36.5%</strong></td>
<td><strong>66.2%</strong></td>
<td><strong>62.7%</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Annual Growth</th>
<th>Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1930/1920</td>
<td></td>
</tr>
<tr>
<td>Law enforcement</td>
<td>4.97</td>
<td>17.5</td>
</tr>
<tr>
<td>Public domain</td>
<td>2.45</td>
<td>9.4</td>
</tr>
<tr>
<td>Commerce</td>
<td>3.39</td>
<td>13.0</td>
</tr>
<tr>
<td>Agriculture</td>
<td>2.93</td>
<td>11.4</td>
</tr>
<tr>
<td>Labor interests</td>
<td>3.32</td>
<td>12.8</td>
</tr>
<tr>
<td>Immigration</td>
<td>3.22</td>
<td>12.5</td>
</tr>
<tr>
<td>Public education</td>
<td>2.64</td>
<td>10.2</td>
</tr>
<tr>
<td>Public improvements</td>
<td>3.29</td>
<td>12.7</td>
</tr>
<tr>
<td>Territorial and local govt</td>
<td>2.32</td>
<td>8.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3.12</strong></td>
<td></td>
</tr>
</tbody>
</table>

Roosevelt hit the ground running thanks to Herbert Hoover and the 72nd Congress which served during Hoover’s last two years in office. On June 6th 1932 the Revenue Act of 1932 passed, enacting the highest peacetime tax rates in US history. The top income tier jumped from $100,000 to $1,000,000 and the top tax rate soared from 25 percent to 63 percent. Corporate

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income taxes also increased from 12 percent to 13.17 percent.\textsuperscript{17} Congress hoped for the increases to bring in over a billion dollars in new revenue. They must have been disappointed when revenue dropped from 3 billion in 1931 to 2 billion in 1932 and remained there in 1933.\textsuperscript{18} Hoover also meddled in the economy consistently when the Depression started. He held conferences with business leaders, encouraging them to resist market forces and keep wages high and prices low. This sounds noble but it lead to pressure that built up in the economy and exacerbated the effects of the depression. He was also the signer of the Smoot-Hawley Tariff. Hoover was a republican, but he was no believer of Laissez-Faire economics.\textsuperscript{19} Roosevelt and the now Democrat-controlled Congress raised higher income tax rates in 1934.\textsuperscript{20} Ultimately, the top tax rate was moved to 79 percent in 1936.\textsuperscript{21} These tax increases were necessary to accomplish Roosevelt’s policy goals. He envisioned a government that operated a series of safeguards and safety nets for the economy. Two of his short-term programs, the National Relief Administration (NRA) the Agricultural Adjustment Act (AAA), set up in 1933, his first year in office, should have provided examples of the ramifications of government involvement.

The NRA encouraged the biggest members of a given industry to collaborate on and establish “codes for fair competition,” which included setting prices and wages within the industry that was enforceable by law.\textsuperscript{22} Of course, current businesses leaders were ecstatic about being able to set the prices and wages within their industry. It negated the risk of being undercut by competition by some creative innovator such as Andrew Carnegie or John D Rockefeller who

\begin{itemize}
\item \textsuperscript{17} Revenue Act of 1932, Public Law 152, 72\textsuperscript{nd} Congress, 1\textsuperscript{st} session, June 6, 1932.
\item \textsuperscript{19} Murphy, Robert. The Politically Incorrect Guide to the Great Depression and the New Deal, (Regnery Publishing 2009.)
\item \textsuperscript{20} Revenue Act of 1934, Public Law 216, 73\textsuperscript{rd} Congress 2\textsuperscript{nd} session, May 10, 1934.
\item \textsuperscript{21} Revenue Act of 1936, 74\textsuperscript{th} Congress, 2\textsuperscript{nd} session, June 22, 1936.
\item \textsuperscript{22} Burton Folsom, New Deal or Raw Deal, (Threshold Editions 2008,) 41-49.
\end{itemize}
had done just that in the steel and oil industries in the 19th and 20th centuries, cutting prices for consumers and increasing efficiency and productivity. Were it not for the economic freedom Carnegie had to innovate in his industry, the United States would probably have never been able to become the dominant steel manufacturing country in the world. Likewise, millions of Americans would have probably been unable to light or heat their homes without Rockefeller’s ingenuity. Fortunately, they contributed their innovations before the NRA came to be. Under the NRA the top firms got bigger, but less efficient, while the smaller entrepreneurs were drowned out by the set costs of industry. The NRA also had detrimental effects on consumers. When the leaders of the tire industry fixed their prices, the price of cars went up, lowering the demand, and ironically creating a real underconsumption problem. Automobile sales were only a third in 1933 of what they were in 1929.23 Those who refused to accept the new law were either bullied out of business or sacred into submission.24

Roosevelt’s other immediate act, the AAA, was his continuation of Hoover’s Farm Board; however, instead of guaranteeing a price for agricultural goods, which encouraged farmers to overproduce, the AAA paid farmers not to produce. In all fairness the AAA did help with the problem of overproduction, at least at first. But it still raised the price of agricultural goods artificially by keeping them in parity with farm prices of a more prosperous era, 1904-1914, to be more specific.25 Eventually, the short-term fix to overproduction failed as farmers began to manipulate the rules of the AAA by not using land they wouldn’t have used anyway for farming. Now that they were getting paid not to use that land they invested their government subsidies in new farm equipment and technology that increased crop yields, once again leading

to overproduction. This again hurt consumers as prices of agricultural products increased once again lowering the purchasing power of an already vastly unemployed and poor population.

Many other New Deal programs brought on similar unintended consequences mirroring NRA and the AAA, but also like them, they were intended to be short-term relief projects. Both would be ruled unconstitutional by the start of Roosevelt’s second term. Other programs were intended to long-term government mechanisms to regulate the economy permanently. The Fair Labor Standards Act, the Social Security Act, the Banking Act of 1933, and the National Housing Act are where we will focus now. These policies have remained influential and in some cases crucial to the lives of the American people. All have had some sort of extension or expansion that has compounded their impact. And most would agree that all of these provided some short-term relief during the Depression—but the long-term effects are more hotly debated. I will explain how these programs affected the long term economy negatively, and helped perpetuate the myth of big government as a force for good.

The Fair Labor Standards Act, signed in 1938, was passed in response to growing concerns about unfairly low wages and work hours. The law established a minimum wage of 25 cents per hour at the time as well as an eight hours per day, forty hours per week, standard work week. Any worker more than that would receive overtime pay of one and a half times their normal wage. The law also put limitations on child labor. Roosevelt had envisioned a minimum wage from the start of his presidency. His first successes came with the NRA, which let industry leaders fix wages within their industry to drive out smaller, newer competition. Congress passed a minimum wage law for women in 1918, but it was struck down as unconstitutional in 1923. Roosevelt finally received support for his minimum wage plan, not from the working class, but

from New England politicians who wanted to protect the wages of textile workers in their districts. Textile factories had begun to move to the South where production was of higher quality for lower wages, because the cost of living was lower. New England workers wanted to eliminate the competitive edge of southern workers and keep their higher wages. Many economists and politicians argued that the minimum wage would increase unemployment, and in fact, unemployment did rise from nine percent to twelve percent between 1937 and 1938.\textsuperscript{27} Southern workers were hit especially hard by the creation of a minimum wage, not only in the textile industry but in many others, and they were aware that these were planned intentions by northern workers and politicians. The Minimum Wage Act was intended to help the poor and working class, but as we follow its effects through the next few decades we will see how its effects only widened the gap between them and the middle class.

The idea of the Social Security Act was pretty straightforward. Workers would pay a tax, called the payroll tax, of one percent of each dollar of income up to $3000 a year, employers would match it, and it would be doled back out when the worker retired. Congress would have the power to raise or lower the payroll tax rates as they saw fit. The law was passed in 1935, taxes began in 1937, and benefits came in 1940. This new tax on labor in 1937 would be compounded the next year by the Fair Labor Act, contributing to the resurgence of unemployment in 1938.\textsuperscript{28} In fact the war effort that was building in the late 1930s likely served as a balancing agent to the unemployment caused by the minimum wage and payroll taxes. When

\begin{footnotes}
\footnote{28} Powell, \textit{FDR's Folly: How Roosevelt and His New Deal Prolonged the Great Depression.}
\end{footnotes}
asked about the economics of taxation, Roosevelt said that “those taxes were never a problem of economics, they are politics all the way through.”

The Banking Act of 1933 was intended to halt the banking panics that plagued the early thirties. These banking panics, also known as bank runs, which resulted in the closings of thousands of banks across the country were attributed to the mingling of investment banking (the practice of selling private corporations’ shares and stock) and commercial banking (traditional banking), which was prevalent during the 1920s. The Banking Act contained four specific regulations, collectively known as the “Glass-Steagall Act,” which restricted such practices. The idea was that by mixing volatile investments such as stocks and bonds with more traditional financial services such as savings accounts and certificates of deposit, it created a liquidity problem for banks should the stocks fall in value. The problem with this theory is that this practice had little to do with the bank runs of the late twenties and early thirties. Most of the banks that failed during this time were rural community banks that were collapsed by the defaulting of farm loans throughout the country. The provisions of Glass-Steagall would have very likely been ineffective in preventing the banking crisis that contributed to the depression. This specific legislation has remained part of the debate as to how much regulation should be put on the financial sector and will be discussed further when we explore the Great Recession.

The National Housing Act would also play a significant role in the causing of the recent Great Recession. This act created the Federal National Mortgage association, Fannie Mae, which was designed to aid in the financing of home building and buying for consumers. Fannie Mae

30 Banking Act of 1933, Public Law 65, 73rd Congress 1st session, June 15, 16, 1933.
31 Oonagh McDonald “The Repeal of the Glass Steagall Act: Myth and Reality” CATO Journal
gave federal money to banks for home mortgages and also provided a secondary market for these
mortgages in which banks could resell them. Fannie Mae and the expansion of its operations
through other similar organizations would play a key role in the bursting of the housing bubble in
2006, which greatly contributed to the Great Recession. I will explain how Fannie Mae, as well
as Glass Steagall, with all of their government interference largely contributed to the economic
instability that has haunted us since.
III. Legacy

Now I will fast forward to the next era of federal expansion, the sixties specifically the mid-to-late sixties. I fast-forward through the forties and fifties not because government didn’t grow during these decades, but because growth was slower during this time. The sixties brought a new wave on energy to the progressive movement. President John Kennedy, elected in 1960, made visionary promises in his campaign speeches of a world without poverty and injustice. Assassinated before the end of his first term, Kennedy started on his plans but the majority of government expansion happened under his successor, Lyndon Baines Johnson. President Johnson’s War on Poverty was Kennedy’s plan on steroids.

I begin with the growth of Social Security. The original law created a program called Aid to Dependent Children (ADC), which was to provide financial aid to single mothers, ideally widows, with young children.\(^\text{32}\) Over the years the program had grown and people were beginning to notice examples of abuse. The program, which was supposed to be used by widows who could not work because of their young children was also being used by just single mothers who kept having kids to increase their benefits.\(^\text{33}\) This created animosity from the right as well as from working democrats who felt that the generosity of welfare was being misused by unscrupulous moochers. However, this animosity was soon chocked off by the swell in liberal

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\(^{32}\) Social Security Act, Public Law 271, 74\(^{\text{th}}\) Congress, 1\(^{\text{st}}\) session, August 14, 1935.

activism. Conservatism, its true form, was abandoned during the sixties, even by Republicans. Arthur Krock, a *New York Times* columnist wrote that “when the national platforms and candidates of 1960 have been chosen, the American voters will find it difficult to detect a major ideological difference between the two major parties.”34 During this time, “liberal” came to be the dominant political ideology as conservatism was all but drowned out by handouts and giveaways. Those who wanted welfare reform were ignored and the expansion of welfare was green-lit. ADC, later changed to AFDC, Aid to Families with Dependent Children, was where it would begin.

Despite the fury over the cases of welfare fraud, AFDC did have a set of provisions. Aid could only be distributed to single mothers living with their children alone, recipients could not work to supplement the aid, and recipients were subjected to inspections by welfare agents. In 1961, the law was changed to allow aid to families with an unemployed father. In 1966, the Department of Health, Education, and Welfare (HEW), restricted at-home inspections. In 1967, the next year, recipients were allowed to work and keep their aid, along with most of their new income. And in 1968 the cohabitation block was lifted by the US Supreme Court.35 This meant that women receiving aid could now live with a man, or the child’s father, as long as she is not married to him. Many argued that loosening this constraint would incentivize people to get on assistance. Data on the subject is compelling, in 1961 the percentage of AFDC families as a percentage of all US families was 2.01 percent. In 1971 it was 5.62 percent and rising.36

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34 Charles Murray, *We the People: Rebuilding Liberty Without Permission*, Cox and Murray Inc. 2015, 2.
Several other expansions in Social Security would soon follow. In 1965, Title XIX was added to the Social Security Act creating the public insurance organizations, Medicaid and Medicare. Medicaid was to cover poor people, and Medicare the elderly, all with government funds. A federal plan to insure the needy was not new. Such a proposal had been put forth under the Roosevelt administration but strong public opposition kept Roosevelt from publicly supporting it. The culture shifts of the 1960’s along with factual manipulation by the programs’ advocates are what allowed the bill to pass when it did. Government officials allowed misinterpretation of the bill to continue because it helped garner public support. While the bill was being considered the general population supported the bill because they agreed that a responsible and upstanding person’s life should not be thrown into chaos because of a catastrophic illness. Meanwhile the original bill only covered hospital expenses for sixty days, and did not cover outside doctor treatments. Advocates also manipulated retiree incomes figure by not including their wealth, leading to misconceptions about the financial position of the elderly population.

In addition, 1965 was also the year the Higher Education Act was passed. Whereas the goal of the Social Security expansions were to increase access to healthcare, this law was to increase access to education by creating scholarships, the Pell Grant, and most importantly, federal loans. Arguments against these programs claimed that government subsidized insurance and loans would inflate the costs of the very programs it was supposed to make more accessible.

Indeed, since 1978 inflation of healthcare costs and College tuition have risen exponentially. Medical care costs have soared 634 percent and tuition and fees have skyrocketed 1,225 percent.

Now I will turn to labor. The minimum wage was raised in both 1961 and 1963, and would continue as LBJ carried out his war on poverty.³⁹ To combat unemployment, federal jobs programs were created throughout the sixties, such as the Area Redevelopment Act of 1961 and the Economic Opportunity Act of 1964. These jobs were bureaucratic, temporary, and taxpayer funded, which exacerbated federal spending, putting a strain on the overall economy, which in turn contributed to the inflation crisis of the seventies.⁴⁰ One might think such frivolous spending would have stopped when Johnson’s successor, republican Richard Nixon, was elected in 1968, but one would be wrong. Nixon continued deficit spending, albeit to a lesser degree. He also continued and expanded the federal jobs programs. In 1971, Nixon signed the Emergency Employment Act, creating 185,000 temporary government jobs. In 1973, he signed the Comprehensive Employment Training Act which doled out billions of dollars for states and non-profits to create jobs.⁴¹ This money began to be used nefariously to create a large dependent liberal workforce to combat conservatives, and it was thanks to a Republican.⁴²

In 1968, Fannie Mae was split into a private and public company. In the previous 30 years the Government Sponsored Enterprise (GSE) had bought up housing mortgages and combined them into Mortgage Backed Securities (MBS) in order to boost the housing industry. Up until this point Fannie Mae operated with the explicit backing of the US government. After this, the backing was only implicit, but definitely still there, as Fannie Mae remained under

government oversight. Fannie Mae remained the name of the private organization while the public option with explicit backing was named the Government National Mortgage Association (Ginnie Mae). Also a new organization, the Federal Home Loan Mortgage Corporation (Freddie Mac) was created to provide competition to Fannie Mae. Both served the same purpose and their charters were virtually identical. The 1977 Community Reinvestment Act was signed to encourage commercial banks to extend mortgages to low-income persons, and the 1992 amendments pressured Fannie Mae and Freddie Mac to expand this practice further. This increased the number of subprime mortgages (mortgages given to borrowers having high default risks) in the financial system. This would become the catalyst of the Great Recession.

Finally, finance. It is often claimed that the financial industry was drastically deregulated during the late twentieth century, and this has become a popular talking point for big government activists. Barack Obama become president using that narrative. In the September 26, 2008 primary debate against John McCain, the future president claimed “I warned that, because of the subprime lending mess, because of the lax regulation, that we were potentially going to have a problem and tried to stop some of the abuses in mortgages that were taking place at the time.” The crux of this argument revolves around the repeal of Glass-Steagall provisions in the Gramm-Leach-Bliley Act in 1999, which prevented the mingling of investment and commercial banking.

Charles Murry argues in his book, Losing Ground that public opinion on the role of government welfare changed during the late fifties/early sixties. Where it had once been seen as

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a last resort for the deserving poor, it was now also being seen as a tool to help the undeserving poor become deserving. President John Kennedy was one that viewed welfare in this way, Murry writes that “Kennedy was in a major departure from precedent. No president—not Eisenhower, nor Truman, nor Franklin Roosevelt… had seen the federal role in this light.”  

This is one instance where I disagree with Mr. Murry. Kennedy, and Johnson even more so, vigorously worked to expand welfare and the role of government, but it was not a drastic transformation. The 1960 Democrat platform stated that the incoming election “will reaffirm the Economic Bill of Rights which Franklin Roosevelt wrote into our national conscience.” Kennedy and Johnson had the full intention of expanding the government and creating a welfare state, but their ideas were not all their own. Everything they planned was predicated on Roosevelt’s legacy.

IV. Crisis

I now come full circle. The Great Recession was the longest, deepest, and most job-destructive economic downturn in the United States since the Great Depression, arguably a depression itself. GDP began to fall in the final quarter of 2008 and fell 4 percent by the second quarter of 2009.\textsuperscript{48} And in the two years after the recession, GDP grew at an average of 2 percent since, noteworthy because historically the US has seen an average growth rate of 4.3 percent in the two years after each recession since 1961.\textsuperscript{49} Unemployment began to rise in 2008 reaching a peak of 10 percent in October of 2009 and remained above seven percent until November of 2013.\textsuperscript{50} Labor participation has also dropped from 66.2 percent in January of 2008 to 62.9 percent as of January 2017.\textsuperscript{51} The percentage of Americans receiving government assistance, funded largely through payroll taxes, increased from 44 percent in 2008 to 49 percent between 2008 and 2012.\textsuperscript{52} The percentage of people on food stamps specifically, increased from 9 percent in 2008 to 15 percent in 2013. All of these statistics are the result of the devastating recession of 2008 and suggest a grim state of affairs for the US economy.

The Great Recession eerily reflected the Great Depression in more than just economic ways. The Recession came in on an election year and Democratic presidential nominee Barack

Obama promised to reign in greedy corporations and use the power of government to create jobs and restore prosperity.53 His signature legislation, the Affordable Care Act, further expanded Medicare and Medicaid, forced Americans to buy healthcare through new government exchanges, and taxed those who did not want to, or could not afford to do so. But the most damaging aspect of the ACA was the employer mandate, which required business owners to provide healthcare for all of their full-time employees if they had over fifty. As a result many businesses were forced to lay off employees, reduce employees’ hours, or shut down. More businesses closed down than started up in 2009, 2010, and 2011; and the number of births is just barely above the number of deaths as of 2013.54

Fixing the broken system and restoring prosperity is crucial, but how do we do it? First, we have to understand how we got in this position. The origin of the Great Recession was housing policy in the 1990s (as I mentioned in the previous section) as well as the Federal Reserve policy of the mid-2000s. In the aftermath of the Early 2000’s Recession (the economic downturn caused the bursting of various stock bubbles in the technology sector) the Federal Reserve lowered interest rates to spur growth. This, compounded with economically unsound home-loan policy that expanded subprime lending lead to an artificial boom in the housing market.55 The soaring value of houses during this time was of little concern to borrowers or lenders because they could always resell the house for a higher prices should the need present

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54 http://www.factcheck.org/2015/11/a-gop-talking-point-turned-false/
itself.\textsuperscript{56} The fun stopped in 2007 when the housing bubble burst and prices plummeted.\textsuperscript{57} The resulting default of home loans lead to the collapse of banks all over the country. This obliterated the value of mortgage backed securities (MBS) that had been bought up as investments not only by US business, but businesses and governments all around the world and caused the collapse in the financial industry.

When it came time to point fingers, those who favor big government blamed the repeal of the Glass-Steagall provisions in 1999. This has remained a popular talking point among those advocates such as Bernie Sanders, new darling of the political Left, who said "we need to pass modern-day Glass-Steagall legislation" in a Burlington speech in June of 2016.\textsuperscript{58} Bernie is just among the loudest of politicians who have constantly asserted this idea despite the fact that the banks most influential in the financial crisis and their actions would not have been affected by the Glass-Steagall provisions; in fact, the entire notion of deregulation in the financial industry over the 30 years prior to the Great Recession is false.\textsuperscript{59} Expenditures on banking regulation increased from 190 million in 1960 to 1.9 billion in 2008, expenditures on the securities and exchange commission (SEC) increased by 76 percent under President George W. Bush alone, and the number of SEC employees increased by 26 percent during the same time. Also, a 2004 rule change in capital regulation allowed the SEC, in the words of one of its spokesman, John Heine, “strengthened oversight of the securities markets.”\textsuperscript{60} Fictitious deregulation was not the

\begin{itemize}
\item \textsuperscript{56} "American Housing Prices: Reality Check" \textit{The Economist}, August 24, 2016, accessed March 24, 2017, \url{http://www.economist.com/blogs/graphicdetail/2016/08/daily-chart-20}.
\end{itemize}
cause of the Great Recession, government created junk-bonds and easy money policy were. Yet, supposed government *inactivity* continues to receive the blame, why?

One of the key features of Roosevelt’s administration was his Brain Trusts, his group of economic advisors. This group was compiled of academics, not businesspeople or even economists in most cases.61 This led to a surge in support from professors for Roosevelt and his ideas. Roosevelt’s policies called for experts, in the sense of formal education rather than practical experience, to run the expanding regulatory function of government, the perfect opportunity for power hungry professors. Liberalism, throughout history, has been common among the educated elite of society, but in the 1930s under the changing culture imposed by a powerful and charismatic president, liberalism took on a new form. And it has continued to evolve. During Roosevelt’s presidency, liberalism merged with progressivism and entrenched itself in the government bureaucracy and education.62 The chaos of World War II and the US victory in it faded the memories of Roosevelt’s mistakes and made him a hero. And his sudden death in 1945 cemented his celebrity even more, much like it does for musicians or actors and actresses. Roosevelt used a similar tactic on the press, by hiring his own team of reporters to his campaign he was able to present all information to the public through a filter of friendly journalist to other journalist who usually repeated the glossed over news verbatim.63 All of this allowed Roosevelt to engrave a memory of himself within education and folklore that was not quite accurate.

During Roosevelt’s presidency, liberalism became a self-righteous ideology that taught its followers to engage in fascism in the sense that they should shut down opposing views.\(^{64}\)

Roosevelt taught his liberal ideology and devious methods to his protégé, Lyndon Johnson, and well; while Roosevelt was using the IRS to attack political opponents by launching invasive, and sometimes baseless, searches into their finances he also found time to halt one targeting Johnson, then a junior congressmen from Texas, for not reporting campaign contributions.\(^{65}\) Johnson would employ many of the same tactics as Roosevelt in his own quest for power.\(^{66}\) Other presidents would use them as well, but none ever did so to the volume or level of success as Roosevelt and Johnson. And it was these tactics that allowed them to implement policies into the American economy and ingrain mindsets into the American psyche. Johnson’s reputation did not begin as glowingly as Roosevelt’s because of the Vietnam War, but over the years LBJ has come to be remembered fondly for his Social Security and welfare expansions.

What began as one president’s dream to transform the United States into his vision of what it should be and how it should work has turned into a chain of them furthering his work. Roosevelt would have likely wanted the progressive transformation to happen sooner, but his work was never off-track. Government control has snowballed into a regulatory welfare state that hurts business by creating a problem, stepping into fixing it, making it worse, and then blaming the businesses. Reckless spending on these massive and crippling bureaucracies have left us with an unsustainable debt that is 104 percent of GDP as of 2015, and is likely to grow.\(^{67}\) Moreover, government has infiltrated education and media to influence the next generation of leaders that

\(^{64}\) Jonah Goldberg, Liberal Fascism: the Secret History of the American Left, from Mussolini to the Politics of Change, (Crown Forum 2009)

\(^{65}\) Folsom, Raw Deal, 146-157


industry is to blame for the incompetence of government. During Roosevelt’s presidency, liberalism became a self-righteous ideology that taught its followers to engage in fascism in the sense that they should shut down opposing views.  

Most millennials, college aged students, now prefer socialism to capitalism. Yet ironically, many who do cannot actually define either term. With virtually the entirety of the world’s knowledge at our fingertips, many have yet to realize the dangers of government and the opportunity of free markets. Maybe capitalism is too scary. Maybe people like the idea of someone being formally accountable for the economy. Maybe, like Roosevelt, we all crave some level of control and security. But maybe one day, hopefully, we can shed those fears and embrace the system that has given us so much, despite the best efforts of many to keep it down.

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Roberts


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