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978-0-521-87721-3 - A Concise History of the New Deal

Jason Scott Smith

Excerpt

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A Global Depression

The Great Depression was a crucial episode in the history of the United States. It was also a pivotal moment in the global history of modern capitalism. These two points are vital for comprehending the tasks facing Americans in the 1930s as they confronted this unprecedented disaster. People of all backgrounds had to cope with the utter collapse of the economic system, a collapse so extensive that it exposed the failure of government, business, and society to control the market. As people responded to the Great Depression, they initiated a fundamental rethinking about the essence of capitalism in America – in short, they inspired a reform movement we call the New Deal.

The 1930s were years when a great deal went horribly wrong. In March 1933, a full forty-one months after the 1929 stock market crash, about one-fifth of the American workforce was jobless. Nearly one-third of those who could find employment worked only part time. Unemployment remained high throughout the decade, standing at just above 11 percent in 1939. It took the nationwide mobilization for World War II to drive unemployment to its twentieth-century low, 1.23 percent, in 1944. Never before in the history of the United States had the country faced such a severe and long-lasting economic downturn. During the years between 1929 and World War II, a wide range of politicians, ordinary citizens, businessmen, and others

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attempted to make sense of what often appeared to be a world turned upside down.

This book is about how all these people tried to understand and cope with the Great Depression – about how, in so doing, they reconfigured capitalism itself. Its goal is to provide readers with a concise history of President Franklin Roosevelt’s New Deal. The New Deal was a program of sweeping reform: in response to the massive economic crisis, the power of the federal government was expanded and deployed in a sustained and concerted fashion to address dramatic failures of the market economy. Although the New Deal did not end the crisis of the Great Depression, many of its programs halted the nation’s economic collapse, ameliorating the worst of the crisis. In so doing, the New Deal’s reforms profoundly changed the American economy, society, and political system in ways that still resonate today. Indeed, many of the key questions that challenge American society today – How should society regulate business? What is the proper role of government in addressing inequality? Who is responsible for safeguarding the nation’s financial system? – have deep roots in the debates that took place in the often dark days of the 1930s.

Contrary to the views of today’s conservative critics, New Dealers such as Franklin and Eleanor Roosevelt, Harry Hopkins, and Rexford Tugwell were not “anti-business” in their approaches to the problems confronting society. The New Dealers certainly brought about dramatic changes, but they were not radicals who were deeply opposed to capitalism or the vitality of the market economy. Rather, as this book argues, they were reformers who were deeply interested in fixing the problems of capitalism. To be sure, the many different programs of the New Deal were at times contradictory, and at points the New Dealers themselves were forced to craft improvisatory solutions. The New Deal, however, possessed a coherent internal logic. It was, on the one hand, a full-throated attempt to respond to the economic crisis of the Great Depression, and on the other, a political project of the Democratic Party, led by FDR. To understand the nature and consequences of the New Deal’s response to the Great Depression, it is essential to understand the nature and

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consequences of the Great Depression itself. It was a worldwide economic collapse, and its roots can be found in the ways that the global economy started to unravel after World War I. Its roots can also be found in some of the persistent flaws in the United States' own economy, visible in the decade of the 1920s.

THE GREAT DEPRESSION: GLOBAL AND HISTORICAL CONTEXTS

Of course, ever since the United States' founding as a group of states stretching up and down the Atlantic seaboard, America has existed in an interdependent set of relationships with other nations. In the years following the Civil War, as the United States expanded its reach both at home and abroad, these international ties took on a renewed resonance. While American industry grew, ordinary farmers and workers met a world that had been transformed by economic growth and growing inequalities. By the close of the nineteenth century, a more integrated global economy was launching waves of immigrants across national borders while American businesses were busily exporting goods to foreign markets. Large firms, such as Andrew Carnegie's U.S. Steel and John D. Rockefeller's Standard Oil, integrated vertically and horizontally and drove the United States to the forefront of global productivity in such sectors as steel and petroleum.

This growth, however, was accompanied by domestic discontent and violent confrontations between labor and capital. The national railway strike of 1877, the bombing in Chicago's Haymarket Square in 1886, and the severe economic depression that began in 1893 horrified much of the nation. Americans struggled to bring order to the social and economic upheavals that increasingly characterized their lives. Many members of the nation's business and political classes sought a solution by focusing their attention abroad. Anxious to expand their reach, particularly in Central and South America and in East Asia, these elites sought to use the capacities of the federal government to enhance business' access to these markets, with the hope that international trade could function as a kind of safety valve that

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might bring about some measure of social balance and peace at home. For their part, working people and labor organizations, such as the American Federation of Labor (AFL), strove in the midst of this tumult to exert some measure of meaningful control over domestic working conditions and labor standards.

The social and economic upheaval churning at the turn of the twentieth century also witnessed a number of attempts to use the power of government to reform the nation's society. A wide range of reformers, interested in such issues as antitrust, public health, unemployment insurance, workers' compensation, income taxation, and the growth of big business, looked to mitigate the harsh impact of capitalism on society. Politically organized farmers in the South and West were key players in demanding a number of reforms. For example, the Sherman Antitrust Act (passed by Congress in 1890) helped shape the boundaries for political and legal debates over the proper place of big business in American society. Ratified in 1913, the Sixteenth Amendment to the Constitution provided the legal foundation for a federal income tax. The Seventeenth Amendment, ratified in the same year, established the popular election of U.S. senators. Farming interests, as well as elements of the business community, called for the creation of the Federal Reserve System with the hopes that this entity would both stabilize the nation's banking system and improve access to credit. Between 1911 and 1920, thirty-nine states followed the lead of Illinois, which was the first to create a statewide system of pensions for mothers with children.

While changes such as these took place at the state and national levels, in cities like New York and Chicago reformers attacked urban social problems. Lillian Wald and Jane Addams, inspired by Toynbee Hall in the East End of London, organized efforts to address the welfare of urban families and immigrants. The American settlement house movement, unlike its English counterpart, was led largely by women. Addams's Hull House, for example, strove to provide Chicago's residents with social and educational programs that, as Addams put it, would "express in social service and in terms of action the spirit of Christ." Rooted in the social gospel and a vision of the interconnectedness

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of society, the settlement house movement joined campaigns for better housing, improved public health, legislation to regulate factories, and racial equality.

Other groups also aimed at aiding specific parts of society. The National Association for the Advancement of Colored People (NAACP), incorporated in 1911, built directly on the work of the National Negro Committee, which was formed in New York City in 1909 at Lillian Wald's Henry Street Settlement House. The NAACP brought together African Americans like Ida B. Wells and W.E.B. DuBois with white reformers like Wald, journalist William English Walling, and others to address the status of African Americans in a deeply segregated society.

A number of progressives who were active in the labor and business communities drew on similar ideas of social connectedness, as well as those of antimonopoly and social efficiency. University of Wisconsin labor economist John Commons joined with progressives like Addams, Irene Osgood, and Richard T. Ely in founding the American Association for Labor Legislation (AALL) in 1906. Supported by money from John D. Rockefeller and Elbert Gary, the AALL served as a kind of clearinghouse, translating concerns over issues like unemployment into concrete policy proposals. Organized labor, long suspicious of the power of the state (government troops were often deployed to crush strikes), was similarly skeptical of the AALL's mixture of socially minded expertise and capitalist funding. Samuel Gompers, the head of the AFL, resigned from the AALL in 1915, charging that it ought to be called the "American Association for the Assassination of Labor Legislation."

While organizations like the AALL tried to change public policy, some business leaders sought to temper the harsh excesses of capitalism and bring stability to their workforces by adopting progressive policies within their own firms. U.S. Steel and International Harvester, for example, provided their employees with wage increases, a promotion structure, paid vacations, pension plans, and even occasionally tried to implement company-sponsored unions. This "welfare capitalism," as it was called, hindered the creation of robust employee

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solidarities within independent unions and generally increased employee loyalty to the company. Firms that engaged in these practices viewed welfare capitalism as a good investment – an efficient use of the company’s resources to purchase labor peace.

This period of progressive activity, usually defined by historians as stretching from about 1880 to 1920, contained many contradictory impulses. These attempts to improve society, however, are crucial for understanding the flowering of reform that occurred during the New Deal. Two points stand out. First, poor implementation hindered many Progressive Era measures. Specifically, the federal government’s half-hearted efforts to constrain the authority of big business and the forces of the private market resulted in the failure of many policies. For example, the Sherman Antitrust Act, created to address John D. Rockefeller’s Standard Oil Trust, was at first rarely enforced – between 1890 and 1901 the federal government brought only eighteen prosecutions. Of these cases, four were brought against striking labor unions rather than large corporations that commanded near-monopoly power. Poor implementation was not the only problem. The federal government during the Progressive Era was, in a word, small. In 1900, only about 250,000 people worked as civil service employees for the federal government – this in a nation of 76 million people and in an economy with a GDP of \$20.6 billion (\$422.8 billion in 2005 dollars). For all these shortcomings, however, this period is worth noting for a second key point: it provides essential historical context for the New Deal. Progressive reformers, imperfections aside, generated a wealth of plans, ideas, and methods for addressing the excesses of capitalism. During the Great Depression of the 1930s, these ideas inspired a number of New Dealers as they wrestled with capitalism in their own historical moment. While these plans would provide intellectual encouragement, many New Dealers also drew on a rather different experience that preceded the Great Depression – that of mobilizing the power of the nation-state during a moment of extreme crisis. This experience of the Progressive Era was not one of economic depression or unemployment. It was found in the crucible of war.

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The emergence of the United States onto the global scene in 1917 as a combatant in World War I is remarkable for many reasons. In war, the stakes for a society are at their absolute highest – the key question, always, is how to maximize a society's economic productivity in order to triumph militarily. Individual goals, political leaders often claim, must be put aside to advance the aims of the nation. Who benefits from war? The list of beneficiaries is rarely short, but near or at the top belongs the nation-state. As sociologist Charles Tilly famously observed, states make war but war makes the state. The power and authority of the federal government grew dramatically during the Great War. Businessmen like Robert Brookings, Bernard Baruch, and Frank Scott served in newly created government agencies like the War Industries Board (WIB). Such entities used public power to intervene directly in the private economy. Labor leaders, like the AFL's Hugh Frayne, also served in governmental bodies like the WIB, where they discovered that the federal government could use its power to satisfy labor's desire for increased wages and better working conditions.

While some reformers objected to American entry into the war, many others enthusiastically joined the mobilization movement. This division manifested itself in a variety of ways. The women's suffrage movement split into two wings, with pacifists such as Jane Addams falling out of favor with Woodrow Wilson's administration, while war supporters, such as Carrie Chapman Catt, openly declared their support for American involvement even before the United States had formally joined the conflict. Other reformers became more directly involved with the federal bureaucracy. Russell Sage Foundation researcher Mary van Kleeck, for example, supervised the federal government's wartime employment standards and regulations for women workers while working for the Department of Labor's newly created Women in Industry Service division, the forerunner of the U.S. Women's Bureau. Even though much of the progressive desire to reform society fell by the wayside during the Great War, reformers gained valuable experience working for a new set of federal bureaucracies that created substantial amounts of state capacity to intervene in America's society and

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economy. These experiences – and the precedents set by reformers within these new organizations during the often-confusing fog of war – would prove important during the Great Depression.

The end of the Great War established that things were changing dramatically for the United States. For at least two decades before the war, the United States had been becoming an important participant in the global marketplace. War accelerated this trend; afterward, America became a key player in global politics and held substantially more leverage in the world's economy. The United States, however, failed to manage these new responsibilities effectively. When the war began in 1914, the world economy was truly an integrated system, as measured by the flows of trade, people, and capital across national borders. This tightly integrated system – today we often refer to this as the process of globalization – was profoundly torn asunder by the war. Or, more accurately, it was shattered by the peace settlement that concluded the war.

No person saw this postwar development more clearly, or expressed his frustrations more powerfully, than Cambridge economist John Maynard Keynes. Working as an official for the British Treasury Department, Keynes was a member of Britain's delegation to the peace conference held in Paris. As part of his duties, Keynes made a thorough study of Germany's ability to compensate the Allies for the cost of the war, concluding, "If Germany is to be 'milked,' she must not first of all be ruined." Popular enthusiasm for "milking" Germany, however, proved too difficult to contain. As Sir Eric Geddes, the First Lord of the Admiralty, put it, "The Germans . . . are going to pay every penny; they are going to be squeezed as a lemon is squeezed – until the pips squeak. My only doubt is not whether we can squeeze hard enough, but whether there is enough juice."

A disillusioned Keynes wrote of the harsh treaty terms, "The Peace is outrageous and impossible and can bring nothing but misfortune." Channeling his frustration into his best-selling account of the peace conference, *The Economic Consequences of the Peace*, Keynes charged that the "Big Three" – Britain, the United States, and France – failed to construct a political settlement necessary for managing the economic reality facing

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European and global economies: A functioning German economy was a necessary condition for a sustainable peace. Given the “Carthaginian Peace” of punitive and unrealistically high war-time reparations imposed on Germany by the Allies in the Treaty of Versailles, Keynes observed, “Even capitalism . . . which plays a real part in the daily process of production, and upon which the present organization of society largely depends, is not very safe.” If Europe did not create political institutions that could cope effectively with interconnected economic realities, Keynes prophesied a grim future: “Vengeance, I dare predict, will not limp. Nothing can then delay for long that final civil war between the forces of reaction and despairing convulsions of revolution . . . which will destroy, whoever is victor, the civilization and progress of our generation.”

A conflict that Americans had initially hailed as a war that would make the world safe for democracy had thus been concluded with a peace treaty that, within a short number of years, would help accomplish the opposite. The failure of the United States to join the League of Nations rendered this new organization an ineffective player on the global scene. The destruction in Europe, coupled with the growth of the United States, meant that the war had firmly placed the United States on the global stage as the world’s largest creditor nation and as a crucial political and economic power. But the global economy, thanks to the settlement of the Great War, not only lacked larger institutional mechanisms and arrangements to ensure political and economic stability; it also rested on profoundly shaky foundations. The hyperinflation that would strike Germany in the 1920s would shake the world economic system and eventually lead to the rise to power of Adolf Hitler and the Nazi Party.

Taken together, the Progressive Era and the Great War had provided American reformers with a crucial set of experiences and precedents on which they would draw during the New Deal. The domestic and international developments of the 1900s and 1910s shaped the initial boundaries for what would follow in the 1930s. But what followed most immediately in the United States after

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the Great War was not a deep, global depression but a decade of prosperity.

THE NINETEEN TWENTIES

Historians are inordinately predisposed to carving the past up into a series of ever-more demarcated periods. “The Era of Good Feelings,” the “Progressive Era,” and the “Gilded Age” are three commonly known examples of this practice; in a similar fashion, categories like “the 1920s” and “the 1930s” animate many works of American history. In recent years, however, “the decade” has entered into popular culture as more than a ten-year period of time. It is often used to epitomize the very spirit of an age, what Germans call the *Zeitgeist*. Unlike experience-oriented markers of time, such as wars, famines, dynasties, or the Renaissance, to name but a few, the decade – much like the century – is a decimal-oriented chronological marker that seems to possess distinctive cultural characteristics, a category that is often legitimized simply because the calendar year ends in a zero. Selective trends or currents in popular culture are thus said to epitomize an entire decade – in this fashion, the 1970s were “The Me Decade,” and the 1980s were “The Greed Decade,” as if these tag-lines somehow convey all that need be said about these years. As historian Warren Susman once astutely observed of this shorthand style of thinking about the past, “We merrily tick off decades, give them tricky names, and assume that that is what history is all about.”

This desire to pin the tail on the *Zeitgeist*, as it were, has many sources. A crucial one is the marked contrast that took place many years ago, between the “prosperity decade” of the 1920s and the “depression decade” of the 1930s. Contemporaries of the period saw this contrast in sharp relief. Journalist Walter Lippmann, for example, declared in 1931 in the early months of the Great Depression, “It is now two years since hard times reached this country, and . . . In all the vast confusion which has resulted one thing at least is certain – the world, when the readjustments are made, can not and will not be organized as it was two years ago. The post-war era of the Nineteen Twenties is over and done.”