

Econ 323

Economic History of the U.S.

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Today's Topics

- Environmental and Natural Resources lecture on Wednesday
- New Deal Half-Dollar and Stamp
- New Deal
- New Deal Video
- Response to current crisis

Question:

Is government too involved in
our lives?

The New Deal

- Government grew tremendously in scope
- Foundation was laid for future increases in size of government
- But many people opposed the New Deal



How to climb out of the Depression? (what should be economic policy?)

1. Fed can increase the Money Supply
2. Government can increase spending

Recall that

$$\text{GNP} = \text{Consumption} + \text{Investment} + \text{Government Spending} + \text{Net Exports}$$

New Deal Policy

- Keynes wanted government spending to increase
- FDR is **credited** with Keynesian policies, but this was an **accident**
- FDR campaigned on balanced budget, but found the problems too deep to ignore

New Deal Policy

- Policies were a **patchwork** of programs (**alphabet soup**)
- Did a lot of redistribution rather than building income
 - (**resliced the pie versus increasing size of pie**)
- Not until Kennedy/Johnson in 1960s and **The Great Society** did we see same increase in redistribution



TABLE 23.2

Legislative Initiatives during Roosevelt's First 100 Days: March 9, 1933–June 16, 1933

Date	Legislation	Abbreviation	Action
March 9	Emergency Banking Relief Act		Authorized bank holidays; gave RFC authority to invest in banks and Fed authority to lend to nonmember and businesses; gave broad powers over transactions in gold, silver, or foreign exchange.
March 31	Civilian Conservation Corps Reforestation Relief Act	CCC	Authorized employment of 250,000 males for reforestation, road construction, national parks, flood and soil erosion control.
May 12	Federal Emergency Relief Act	FERA	Appropriated \$500 million for relief. Half given directly to the states, rest on a \$1 federal for each \$3 state relief.
May 12	Agricultural Adjustment Act	AAA	Established parity prices returning farmers to pre-World War I purchasing power. Subsidized voluntary reduction of acreage or crops. Provided for refinancing of farm mortgages through federal land banks. Authorized the president to reflate the currency through devaluation of gold content, coinage of silver, or printing of \$3 billion paper currency.
May 18	Tennessee Valley Authority	TVA	Created the TVA with authority to construct dams and power plants along the Tennessee River and develop programs for the social and economic well-being of the region.

May 27	Federal Securities Act		Required full disclosure to investors on all public stock offerings or sales through the mail or interstate (incorporated into SEC in 1934).
June 6	National Employment System Act		Authorized creation of U.S. Employment Service.
June 13	Home Owners Refinancing Act	HOLC	Created Home Owners Loan Corporation with \$200 million capital and authorized bonding authority of \$2 billion to refinance home mortgages and furnish cash advances for taxes, repairs, and home maintenance.
June 16	Banking Act of 1933 (Glass-Steagall)		Created FDIC for deposit insurance; widened Fed membership. Permitted branch banking.
June 16	Farm Credit Act	FCA	Provided for short- and medium-term credits for agricultural production and marketing; long-term farm mortgage loans.
June 16	Emergency Railroad Transportation Act		Prohibited "unnecessary" duplication of services; promoted reorganization and consolidation; placed railroad holding companies under the ICC.
July 3	National Industrial Recovery Act	NIRA	Authorized "Fair Trade" codes under the National Recovery Administration (NRA) and granted exemptions from antitrust. Authorized National Labor Board with rights to enforce collective bargaining. Authorized \$3.3 billion for the Public Works Administration (PWA) to build roads, bridges, and public buildings.

NRA

MEMBER



U.S.

WE DO OUR PART

New Deal Policies

- Financial Industry
 - Truth-in-lending Act 1933
 - New securities had to register with FTC
 - Glass-Steagall
 - Separated banks/insurers/brokers
 - Securities and Exchange Commission began
 - Fed increased regulation of stock margin buying
- Today Financial Industry is one of the most regulated (but still has problems!)

New Deal Policies

- “Government” Industry
 - Hired many workers (many temporary)
 - 7% of labor force employed by gov. (next slide)
 - Civilian Conservation Corp
 - Planted trees, soil erosion
 - Works Progress Administration WPA
 - Paid to “do work”
 - Artists, Coit Tower in SF, Hoover Dam, TVA, Redwood Bowl

TABLE 24.1 Emergency Workers During the Great Depression

YEAR	UNEMPLOYED (in thousands)	UNEMPLOYED (percent of labor force)	EMERGENCY WORKERS (in thousands)	EMERGENCY WORKERS (percent of labor force)
1929	1,550	3.2%	0	0.00%
1930	4,320	8.7	20	0.04
1931	7,721	15.3	299	0.6
1932	11,468	22.5	592	1.2
1933	10,635	20.6	2,195	4.3
1934	8,366	16.0	2,974	5.7
1935	7,523	14.2	3,087	5.8
1936	5,286	9.9	3,744	7.0
1937	4,937	9.1	2,763	5.1
1938	6,799	12.5	3,591	6.6
1939	6,225	11.3	3,255	5.9
1940	5,290	9.5	2,830	5.1
1941	3,351	6.0	2,209	3.9
1942	1,746	3.1	914	1.6
1943	985	1.8	85	0.2

Source: Michael Darby, "Three and a Half Million U.S. Employees Have Been Misaid: Or, an Explanation of Unemployment, 1934–1941," *Journal of Political Economy* 84 (1976): 7, 8.

New Deal Policies

- Agriculture
 - Agricultural Adjustment Act (AAA) 1933
 - Later found unconstitutional
 - Paid farmers not to plant
 - This reduces supply and raises price.
 - If demand not responsive to price (inelastic), then total income rises if price rises
 - Commodity Credit Corporation 1933
 - Loans to farmers with crop as collateral
 - If prices up, then repay loan
 - If prices fall, then surrender the crop

New Deal Policies

- Agriculture (cont.)
 - Cartel Pricing (Marketing Agreements)
 - Surplus Removal Programs
 - Food stamps, school lunches, export subsidies
- Ever since New Deal, Agriculture has depended on subsidies

New Deal Policies

- Labor Laws
 - Union membership up
 - 6.8% in 1930
 - 17.2% in 1942
 - Wagner Act 1935
 - Right to collectively bargain
 - Unfair labor practices spelled out
 - Fair Labor Standards Act 1938
 - (replaced NIRA)
 - Set minimum wages, maximum hours per week
 - Restricted child labor

New Deal Policies

- Social Insurance
 - In 1930 the U.S. was behind other developed countries
 - Social Security Act 1935
 - Old Age Pension, Survivors, Disability
 - But NOT Medicare
 - Unemployment Insurance

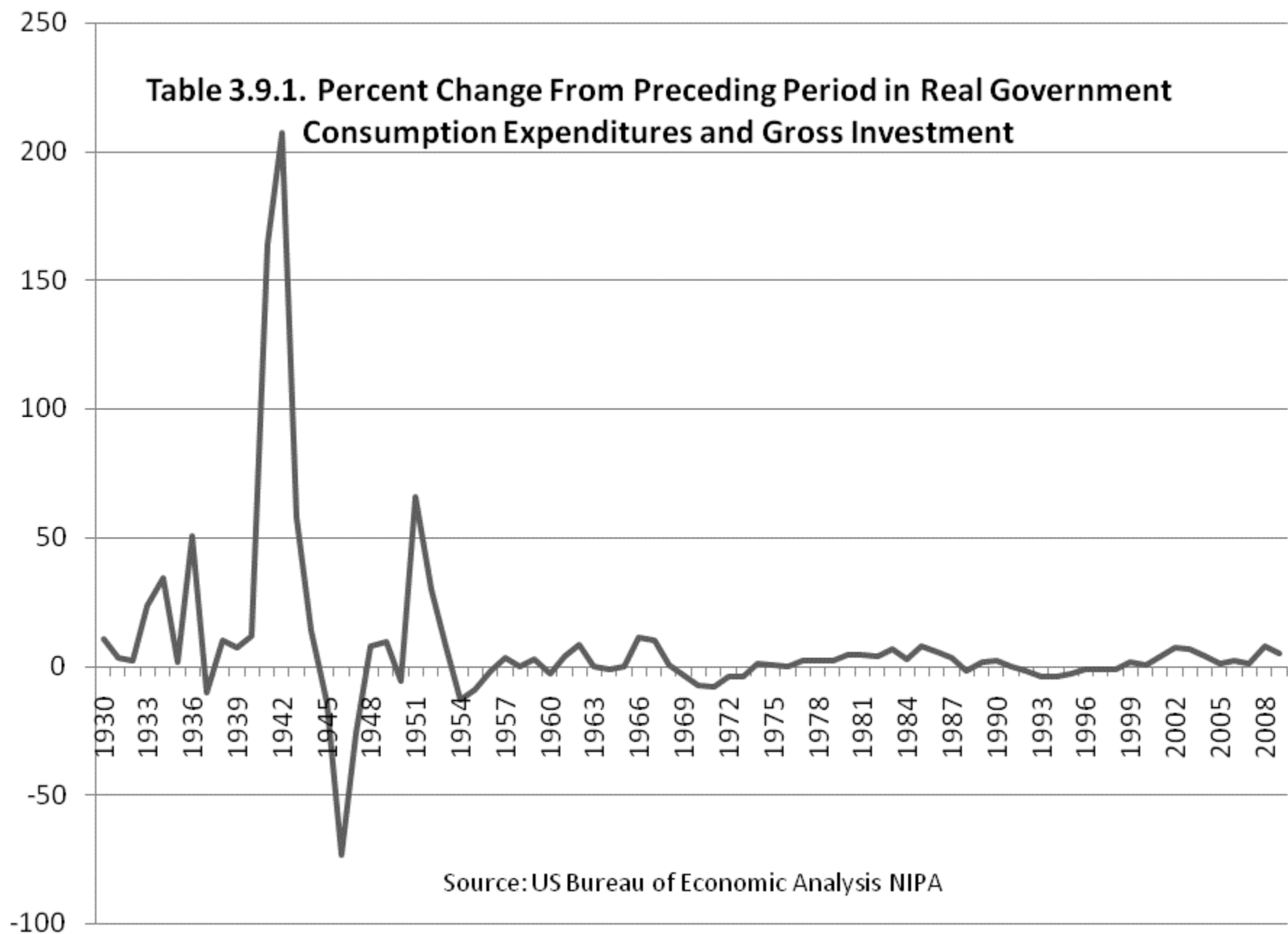
New Deal Video

10 min.

2008 Recession Response

- Smaller increase in government expenditures
- “Insurance” for financial sector provided
- TARP (2008) (like Reconstruction Finance Corporation) authorized \$700bil for purchases of mortgage assets to help banks/financial institutions
- Bush’s other stimulus—\$152bil: tax rebates, raising Fannie mortgage conforming limits
- Obama stimulus--\$787bil: tax rebates, targeted gov. spending

**Table 3.9.1. Percent Change From Preceding Period in Real Government
Consumption Expenditures and Gross Investment**



Source: US Bureau of Economic Analysis NIPA