

New Deal Denialism

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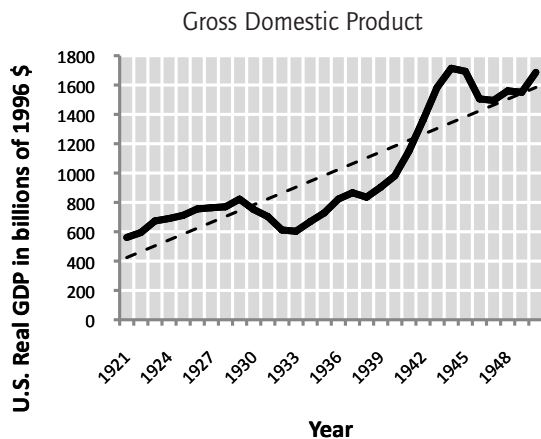
From the start of the current economic crisis, commentators have compared the ongoing unpleasantness to the crash of 1929, with the implication that we might soon begin to suffer a version of the Great Depression if we did not avoid the errors of our predecessors. Right-wing and libertarian pundits knew to a moral certainty what those mistakes were: neither Herbert Hoover nor Franklin Roosevelt had the wisdom to leave recovery to the energies of private enterprise. Few liberal or left commentators disputed the underlying point, conceding that though the New Deal brought the nation many fine reforms, it did not produce recovery from the slump—thus leaving the Right free to define the New Deal as a relic of America's pre-Reagan dalliance with socialism, best forgotten. Yet the data support neither the Left's concession nor the Right's contention. As a result we have little ability to talk meaningfully about the New Deal and its possible lessons for today. We can learn from the Roosevelt administration's successes and failures; we have just to know what they were.

First, the facts:

GDP

Certainly the New Deal did not see an end to the Great Depression: GDP did not return to trend until the war. But the slump was clearly ending and would, in all likelihood, have ended even without the war. Consider the progress of real GDP during the 1930s.

GDP sank throughout Hoover's term in office and rose throughout Roosevelt's first two terms, with the exception of the dip in 1937-1938. During Roosevelt's presidency, and well before the war, the economy was recovering. Any assessment of the New Deal as a failure at promoting recovery assumes that this



improvement could and should have happened faster. But this is not a terrifically reasonable supposition. As Christina Romer has pointed out, annual rates of economic growth during the New Deal (1937-1938, as always, excepted) averaged 8 percent to 10 percent; "these rates of growth are spectacular, even for an economy pulling out of a severe recession." Something moving at a spectacular rate and in the right direction that nevertheless takes almost a decade to get where it's going has a long way to go. In homelier terms, imagine you want to drive from New York to San Francisco. You might make good time—you might even, though of course one would not recommend it, exceed the speed limit as you barrel along Interstate 80. And you might feel after two days that you had been driving a long time—but you still wouldn't be there, even though you'd been making good time and heading in the right direction: San Francisco is far away from New York.

In other words, it took a long time to recover from the slump of 1929-1932 because the magnitude of the catastrophe was so great. We cannot say simply from the data that the New Deal promoted recovery, but we can say that whatever drag the Roosevelt administration's socialistic policies may have exerted on the

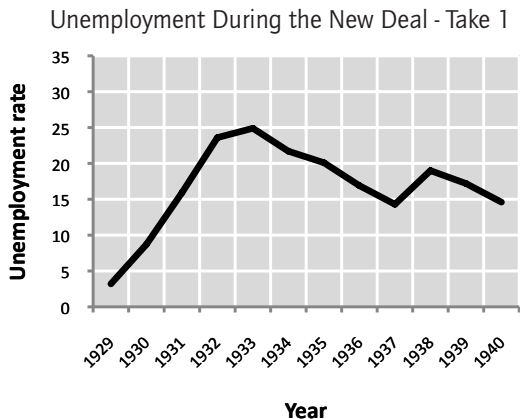
economy, it was insufficient to prevent a spectacular rate of recovery. Citizens appear to have noticed this; as the political scientist Larry Bartels writes, in the 1936 election Roosevelt did best “in the states that happened to enjoy robust income growth in the months leading up to the vote.”

One therefore would not want to begin an analysis of the New Deal by asking why Roosevelt’s policies prevented recovery; this would be a bit like Newton beginning his analysis of gravity by asking why an apple detached from the tree tends to fly off into space. Still, we would want to know, if possible, what policies promoted the recovery and whether the recession of 1937-1938—sometimes called the Roosevelt recession—could have been avoided by adopting better policy.

Unemployment

Throughout the 1930s the Bureau of Labor Statistics (BLS) kept some data on employment, and in 1940 the Work Projects Administration (WPA) began a monthly survey of households to determine the jobless rate, but during the New Deal the federal government provided nothing resembling the modern unemployment measure. We therefore have to construct measures of unemployment retrospectively, which means making informed judgments about what, and whom, to count.

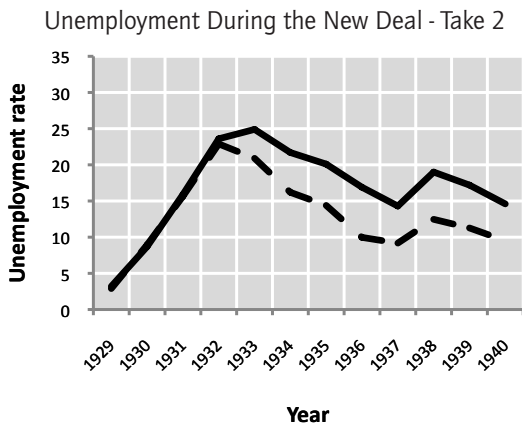
If you want to find historical data on American events, you normally consult the authoritative reference, *Historical Statistics of the United States*. In its bicentennial edition, *HSUS* contained the series on unemployment depicted in the graph labeled “Take 1.”



As calculated by the economist Stanley Lebergott and based on the original BLS data, the figures showed some, but not great, improvement through the New Deal, and a rise in 1937-1938 almost to Hoover-era levels. As Lebergott noted, and as Linda Gordon pointed out in the Fall 2009 issue of *Dissent* (“The New Deal Was a Good Idea, We Should Try It This Time”), this was partly because people who worked for New Deal agencies like the WPA were counted as unemployed.

Other economists realized this might be a flaw in the unemployment series. In 1976, Michael Darby published an essay under the self-explanatory title “Three-and-a-half Million U.S. Employees Have Been Mislaid.” Subsequent economic scholarship revealed that on the normal measures of unemployment, those workers should count as workers, partly because that is how they acted and that is how they regarded themselves: “We WPA workers want to work and be treated as workers,” one explained.

Assessing scholarship on the question in 1992, the economist David Weir compiled a new series on unemployment, subtracting out

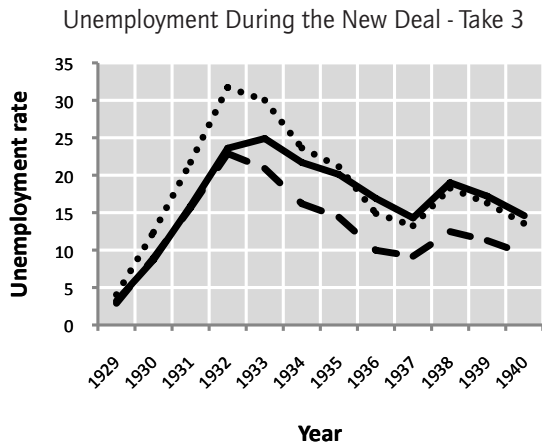


the WPA and other emergency workers.

Now one could see substantial improvement during the New Deal, but was it only an illusion, an artifact of federal employment? To answer this question, Weir created a separate series showing only private, nonfarm employment.

Here too, as in the graph labeled “Take 3,” the situation looked much better under Roosevelt than under Hoover. And for the new, millennial edition of the *Historical Statistics of the United States*, the editors adopted Weir’s two

NEW DEAL DENIALISM



series over Lebergott's as measures of unemployment.

Thus, whether you look at the performance of GDP or at current scholarship on unemployment, you see significant recovery during the New Deal. You could only believe the New Deal did little to aid the ordinary American if you went out of your way to cite the older, Lebergott data on unemployment and utterly ignored the performance of GDP.

This is precisely what conservative commentators did as they argued increasingly through the onset of the economic crisis that we ought not to imitate Roosevelt's program of recovery.

Smoke and Mirrors

In 2007, HarperCollins brought out *The Forgotten Man: A New History of the Great Depression* by Amity Shlaes, a syndicated columnist for Bloomberg and a fellow of the Council on Foreign Relations. Borrowing from Roosevelt, Shlaes declared in her introduction that the problem with New Deal historiography was fear itself: "[f]ear of being labeled a red-baiter has too long prevented historians from looking into the Soviet influence on American domestic policy in the 1930s."

Shlaes did not lack for such courage. It is difficult to do justice to her method of adducing evidence; in the *New York Times* David Leonhardt says she proceeds "mostly by implication." For example, within the space of a single page she worries over "the intellectual exclusivity of the Left" by discovering a network centered on Vassar, "one of the more important refuges" for leftists:

"There a young theater director named Hallie Flanagan created a sense of utopian experiment. Flanagan had herself visited Russia to learn from Soviet theater, years earlier, and would do so again....One of Vassar's trustees, Franklin Roosevelt, would shortly run for governor of the state of New York. His wife, Eleanor, was co-owner of a tiny furniture factory that made colonial reproductions, Val-Kill, and which counted Vassar College among its clients."

It is hard to know what to say about this disclosure; it seems at the least inadequate to the task of proving Shlaes's thesis that Roosevelt was "often inspired by socialist or fascist models abroad." Nor is it atypical of Shlaes's method. There is really no stronger proof in the book. As Jonathan Chait wrote in the *New Republic*, "The experience of reading *The Forgotten Man* is more like talking to an old person who lived through the Depression than it is like reading an actual history of the Depression. Major events get cursory treatment while minor characters . . . receive lengthy portraits."

But apart from Leonhardt and Chait (and this author, writing in *Slate*), the book received generally favorable treatment. Blurbed by Paul Volcker and Arthur Levitt (as well as William Kristol, Harold Evans, and Mark Helprin), it sold well.

Nobody much objected to Shlaes's use of data. At the head of each chapter she reports some numbers for the jobless rate and for overall recovery. For unemployment she uses a series based on Lebergott's, admitting some awareness of the extensive scholarly unhappiness with this measure, but justifying its use because it is "traditional." For overall recovery she uses the value of the Dow Jones Industrial Average.

It is hard to know why Shlaes made these choices. Lebergott's series may be "traditional," but as we have seen it is also the only jobless measure for the 1930s that makes the New Deal look as if it did little for the working American. On the other hand, GDP is a highly traditional measure of recovery—the National Bureau of Economic Research looks at it, not the Dow, when dating business cycles. And it shows steady growth, while the market, as J.P. Morgan predicted it would, fluctuated.

It is possible that Shlaes chose these

measures because they help make a case against Roosevelt. It is also possible she chose them because she was simply not very interested in getting the magnitude of important things right.

For example, to Shlaes the Schechter brothers, who successfully sued the National Recovery Administration (NRA), were Davids stepped on by the Roosevelt Goliath, “unknown. . . slaughterhouse men who served a market as humble as they were.” In fact, as the historian Andrew Cohen points out, the Schechters were one of the largest players in a large market, grossing over a million dollars per year in a business that brought in sixty million per year total in New York City, and if you know this it helps you understand that the NRA was here working against the interest of big business, not picking on small-timers.

Likewise Shlaes characterizes Wendell Willkie, the utilities executive, as “one of the Babbitts of real life.” The fictional Babbitt, a small-time businessman, earned (according to his creator, Sinclair Lewis) a “medium income” of slightly more than eight thousand dollars a year—nowhere near what Shlaes reports for Willkie, which is over \$75,000.

If you call millions of paid workers unemployed, if you ignore the GDP in favor of the stock market, if you confuse the rich with the middle class, if you fixate on the slightest connection between the Roosevelts and people who took a vague interest in Soviet art, you can just about paint a picture of the New Deal as a foreign graft onto American stock, unhelpful to the ordinary American and to the overall United States economy. And nobody much will correct you.

Shlaes was only the most popular New Deal denialist in the midst of the economic crisis, carrying her view to popular television outlets and purveying it in *Washington Post* columns. She was generally careful and avoided flat-out lies, writing that in 1937 “the country seemed farther from recovery than before” (nay, madam, say what is; we know not “seems”) or saying simply that “unemployment remained high throughout the decade,” without noting what direction it was moving in. Others inspired by her work drew less careful characterizations of the data, as when a *Wall Street Journal* editorialist wrote, “As late as 1938, after almost a decade of governmental ‘pump

priming,’ almost one out of five workers remained unemployed”—“remained” is untrue even using the Lebergott data.

Apart from waving away improvements in unemployment and GDP, the New Deal denialist may try any of several other methods.

(1) *Making Herbert Hoover the same as Franklin Roosevelt.* The argument generally goes that neither Hoover nor Roosevelt was noninterventionist, therefore each was bad in his own way, and only a Harding or Coolidge might have responded appropriately. Shlaes offers a version of this thesis; so does Ron Paul, when he says, “In 1921 we had a severe depression; it was over in one year. A little bit later in the 30s we had another one but then the government decided to do all these things, bail everybody out . . . it prolonged the correction.” A quick look at the GDP graph dispels this one; there can be ineffective intervention (Hoover) and effective intervention (Roosevelt). The catastrophe slowed in Hoover’s last year—when he worked with Congress to create the Reconstruction Finance Corporation and begin bailing banks out. Roosevelt, of course, did more and better, shutting down and auditing

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the banks, going off the gold standard, and putting the federal government sufficiently into the relief business to make a difference. Moreover, Harding and the Congress did not react inertly to the 1921 recession, adopting restrictions on immigration and imports.

(2) *Pretending that the National Recovery Administration was the whole of the New Deal.* Nobody loves the NRA. An early New Deal agency that licensed industrial cartels and permitted price- and wage-fixing, it was an unwieldy thing—"an awful headache," Roosevelt himself said—that petered out late in 1934 and was killed outright by the Supreme Court in 1935. Mainly a bad idea, it didn't last long, and set next to the successes of banking, relief, and public-works policy can scarcely be said to outweigh them.

(3) *Condemning relief work as make-work.* Characterization of WPA workers as shovel-leaners began with WPA. But it was primarily a road-building agency that, together with the bigger projects of the Public Works Administration and the Tennessee Valley Authority, modernized the South and the West and created the infrastructure that permitted the wartime and postwar prosperity.

(4) *Shifting the goalposts.* Economists Harold Cole and Lee Ohanian argue that we should look for the recovery not at GDP or unemployment, but at hours worked per adult, which sank and remained low throughout the 1930s. The problem with pinning a definition of recovery to hours worked per adult, aside from its unconventionality, is that hours worked per adult follows a downward trend through the twentieth century. By this measure the country was still in the depression through the 1950s, 1960s, 1970s, and onward through what was, at the time, called the long boom.

A Better New Deal

To note the relative success of the recovery during the New Deal is not to claim perfection for Roosevelt's policies. As Linda Gordon noted recently in these pages, New Deal policies could and should have done more for African Americans and women. In addition, they could have done more for the recovery.

The U.S. economy went back into recession in 1937-1938. In response, John Maynard Keynes

privately wrote Roosevelt to say that "the present slump could have been predicted with absolute certainty." Keynes pointed out the New Deal policies that had clearly worked—salvaging the banking system and providing relief, as well as public works. One might add to these effective policies the abandonment of the gold standard.

But Keynes pointed out that Roosevelt had cut back on public-works expenditures in 1937, thus yanking support out from under the recovery just when it was most needed. What the American economy required instead, Keynes argued, was "large-scale recourse" to public-works spending. In 1938 the administration returned to such spending and, indeed, the recession lifted. One may easily suppose, on Keynes's formula, that had Roosevelt not cut back on public-works spending in 1937, the recovery would have continued apace. One may further speculate that even more spending sooner would have produced better results.

Recovery was only one-third of the New Deal's three Rs, along with relief and reform, and for some New Dealers not necessarily the foremost. Reform—reform to ensure a better distribution of the benefits of American prosperity, to ensure that a crisis like the Great Depression would not occur again, or if it did, that it would not do so much harm to the American people—was often a higher priority and led to great accomplishments: the Federal Deposit Insurance Corporation, a strengthened Federal Reserve system, the Wagner Act, the Social Security Act. The provision of relief work too, at long last and after so much neglect and indifference, meant much to many Americans, and perhaps prevented movements like the Bonus Army from turning into genuine fascist threats. But in remarking on the success of relief and reform, we should not omit to note, even in the face of strenuously ill-informed objection, how the New Deal saw the turnaround and recovery for which so many Americans yearned.

Eric Rauchway teaches history at the University of California, Davis and is the author of *The Great Depression and the New Deal: A Very Short Introduction* (Oxford, 2008).

All graphs by Eric Rauchway, based on data from *Historical Statistics of the United States*, Millennial Edition (Cambridge University Press, 2006); old unemployment series from Bicentennial Edition (Bureau of the Census, 1975).