

# Great Depression and New Deal<sup>1</sup>

## *PART ONE*

### *Timing and severity*

The Great Depression began in the United States as an ordinary recession in the summer of 1929. The downturn became markedly worse, however, and continued until early 1933. Real output and prices plummeted. Between the previous peak in 1929 and the trough of the downturn in 1932, industrial production in the United States declined 47 percent and real gross domestic product (GDP--the output of goods and services produced by labor and property) fell 30 percent.<sup>2</sup> The unemployment rate reached 25 percent in 1932, and would never fall below 14% until the 1940s. The severity of the Great Depression in the United States becomes especially clear when compared to the recent economic decline since 2008. The United States' real gross domestic product was 6 percent lower in late 2008 and early 2009, compared to a year later. The U.S. unemployment rate increased to 9.5% by June 2009, the highest rate since 1983 and roughly twice the pre-crisis rate. And although the economy in late 2009 and early 2010 started expanding, unemployment has remained high, hovering in the high 9-low 10 percent area from August 2009 through March 2010. As bad as the economy has been recently, imagine how much worse things would be if unemployment were two-and-a-half times higher, and if the GDP declined by 30%, instead of only 6%!

The U.S. recovery began an incredibly slow recovery in the spring of 1933. If you only look at GDP, the recovery was decent: real GDP rose at an average rate of 9 percent per year between 1933 and 1937 (in fact it almost equaled the 1929 level, in real terms, growing from \$585 billion in 1933 to over \$800 billion in 1937). While 9% growth per year in GDP is very impressive (most modern industrial economies average 2-3% growth per year), in 1937-38 the United States suffered another downturn; and after mid-1938, the GDP resumed its upswing. Most critics of Roosevelt's New Deal policies, however, also look at unemployment, which remained high not only throughout the 1930s, but into the 1940s. And even when the economy was healthiest during the New Deal (1937), unemployment was still 14%. It wasn't until 1942 that unemployment was low (4.7%), when almost every adult in America was either working for wartime production, or actually in the armed forces.<sup>3</sup>

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<sup>1</sup> Two good sources critical of FDR and the New Deal are articles by CATO, "How FDR Prolonged the Depression," found [http://www.cato.org/pubs/policy\\_report/v25n4/powell.pdf](http://www.cato.org/pubs/policy_report/v25n4/powell.pdf), which focuses on the New Deal itself, and <http://www.thefreemanonline.org/featured/the-depression-youve-never-heard-of-1920-1921/>, which compares the New Deal to the reaction to the 1920 economic decline.

<sup>2</sup> "Real" GDP is a statistic that factors in inflation (or deflation, when prices drop).

<sup>3</sup> The number of unemployed workers declined by 7,050,000 between 1940 and 1943, but the number in military service rose by 8,590,000. The reduction in unemployment can be explained by the draft, not by the economic recovery.

### The Roaring 20s and the Stock market crash

Fueled by tax, the economy grew at a fairly rapid rate in the 1920s. The Federal Reserve index of industrial production (with the average levels of 1923-25 equaling 100), which was only 67 in 1921, reached 110 by July 1928, and 126 by June 1929. In the months before the crash of the stock market in October 1929, the economy did slow down, although there is no reason to believe that this would be anything other than a slight downturn. By October, this same index stood at 117 (as compared with 126, only four months earlier). Steel production declined from June on; in October freight-car loadings fell. Home-building, a very volatile industry, had been falling for several years, and it slumped still farther in 1929. From August 1929 to the crash in October, production, wholesale prices, and personal income fell at annual rates of 20%, 7 ½%, and 5%, respectively. This is clearly a recession, although given the many years of steady growth, such a small downturn by itself was no reason to believe that a major depression was looming ahead.<sup>4</sup>

Stock prices had risen more than fourfold from the low in 1921 to the peak in 1929. The stock market crash helped drive down demand for products. Both consumer purchases of durable goods, and business investment, fell sharply after the crash. Both consumers and businessmen grew worried about the future state of the economy, which made purchases of expensive items more unlikely. The value of stock that was lost in the first fateful week alone (of Monday, October 28) was \$30 billion—a massive amount of capital, when you take into account that the entire US economy (the GDP) in 1929 was just over \$100 billion (this \$30 billion stock market loss was over ten times the current annual budget of the federal government, as well as being much more than the U.S. had spent in all of World War I). With so many wealthy Americans finding their fortunes vanishing, they spent a lot less in the months following the crash than they were before. As a result of the drastic decline in consumer and business spending, real output in the United States, which had been declining slowly up to this point, fell rapidly in late 1929 and throughout 1930. Thus, while the great crash of the stock market and the Great Depression are two quite separate events, the decline in stock prices was one factor contributing to declines in production and employment in the United States.

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<sup>4</sup> There are no clear-cut definitions for “recession” and “depression,” although the most common one of “recession” is two consecutive quarters of a decline in GDP (not a decline in growth, but an actual decline in production itself). A “depression” occurs is a severe recession, occurring when a recession continues unabated.

## *PART TWO: Causes of the Depression*

### *Banking panics*

After the stock market crash and dip in production in 1929, the next blow occurred in the fall of 1930, when the first of four waves of banking panics gripped the United States. These banking panics saw a lot of runs on the banks. A run occurs when depositors at a bank all withdraw their money at the same time. When this happens, the banks, which typically hold only a fraction of deposits as cash reserves, must call in their loans, in order to raise the required cash. When this happens, the borrower must pay back the loan, or give up the collateral to the bank, which would then put that up for sale. When faced with a bank run, even a bank in sound financial condition can fall, and when this happens to many banks, what results is many banks putting up a lot of property for sale, causing the price of real estate to plummet. This makes it less likely that the banks can keep paying off their depositors, which leads the banks to call in even more loans. And so bank runs can have a horrible impact on the economy. More than nine thousand banks failed in the United States between 1930 and 1933, equal to some 30 percent of the total number of banks in existence at the end of 1929. While the amount of savings lost to depositors was only 4 percent of the total amount of deposits (in other words, for every dollar deposited in banks, 96 cents was preserved), this probably didn't console the people who did see their life savings lost (or significantly depleted).

The United States experienced widespread banking panics in the fall of 1930, the spring of 1931, the fall of 1931, and the fall of 1932. The panics took a severe toll on the American banking system. By 1933, one-fifth of the banks in existence at the start of 1930 had failed. The final wave of panics continued through the winter of 1933 and culminated with the national "bank holiday" declared by President Franklin D. Roosevelt on March 6, 1933. The bank holiday closed all banks, and they were permitted to reopen only after being deemed solvent by government inspectors.

### **Unit Banking**

Another factor that made the bank panic in the United States so severe was the strict "unit banking" laws in many American states (unit banking laws restrict banks from operating more than one branch). Over 90 percent of the banks that failed in the bank panic of 1930-32 in the United States were single-branch banks; by way of comparison, Canada, which experienced an equally severe depression in the 1930s, didn't have one single bank fail—and it had much looser banking restrictions than the United States did. By allowing banks to establish branches in different areas, banks can cushion themselves against an economic downfall in one region (where many of their loans would not get paid back), by investing in other regions. Banks that have only one branch obviously cannot do this.

### Farms losing money

One of the reasons so many banks failed was the dismal profits of farmers, who would have formed a large percentage of banks' borrowers (according to data from the U.S. Department of Agriculture, 21.5% of American labor was on farms in 1930, whereas in 2000, it was only 1.9%). The heavy farm debt stemmed in part from the high prices of agricultural goods during World War I, which had spurred extensive borrowing by American farmers wishing to increase production by investing in land and machinery. The decline in farm commodity prices following the war made it difficult for farmers to keep up with their loan payments. Farm income declined throughout the 1920s; it took an even bigger hit at the end of the decade, after the crash. Even after a decade of falling farm prices, the net income of American farmers plummeted from \$7 billion in 1929 to only \$2.5 billion in 1932, which meant much less money was available to pay off their loans.

### Agricultural Price Declines in the 1920s<sup>5</sup>

(three-year averages)	¢/bu			¢/lb.	
	Wheat	Corn	Oats	Potatoes	peanuts
1919-21	167	88	54	145	6.2
1924-26	163	83	42	124	5.1
1929-31	69	57	31	89	3.1

While the average foreclosure rate between 1913 and 1920 was 3.2 per 1,000 farms, it jumped to 17.4 per 1,000 farms in 1926, and by 1933 had reached 38.8 per 1,000 farms. With prices falling as seen in the table above, you can see why this was the case.

<sup>5</sup> Source: United States Department Of Agriculture Yearbook Of Agriculture, 1934

## *PART THREE*

### *The Misunderstood Response of Hoover*

Herbert Hoover, having won the 1928 presidential election, was inaugurated in March 1929. Many people are not aware that Hoover also attempted many of the policies Roosevelt later implemented, although not on as large a scale as Roosevelt. They mistakenly believe that Hoover insisted on a free-market, laissez-faire response to the crash and Depression. Hoover dramatically increased the size of the federal budget (from \$3.1 billion in 1929, to \$4.6 billion in 1933, a 48% increase in spending in just four years). He instituted several of the programs that were later carried over into the New Deal.

Hoover met with industry leaders and got them to commit to maintaining wage levels (instead of lowering wages to cut costs in slow times). Throughout Hoover's term, real wages (comparing the actual wages to the cost of living) actually *increased*, because prices declined so much. He got the Federal Reserve System to purchase many government bonds, putting money into the economy, and giving banks the ability to loan more to individuals and businesses. Interest rates dropped from 4.2 percent down to 1.2 percent (before rising back to 3.2 percent late in 1931). Low interest rates obviously made it easier for businesses and individuals to borrow money, when the loans were spent, production of goods and services would increase, stimulating the economy.

Hoover, through the Federal Farm Board, Grain Stabilization Corporation, and the Cotton Stabilization Corporation, sought to keep wheat and cotton prices high (to help out the farmers). Money was loaned to farmers if they kept crops from the market; eventually, these crops were bought and stored by the government itself. Over \$300 million was lost in this attempt, as prices continued to fall, and plummeted when the government decided to stop this experiment and put its stores of the two goods, back on the market.

He set up the RFC which loaned over 2 billion dollars (52% of this to banks, another 17% to railroads—but of the railroad money that has been traced, the vast majority of this was used simply to pay off loans from banks). In the case of the Missouri Pacific, the RFC granted the loan despite an adverse warning by a minority of the Interstate Commerce Commission, and, as soon as the line had repaid its debt to Morgan, the Missouri Pacific was gently allowed to go into bankruptcy. The Federal Home Loan Bank Act bought some \$94 million worth of home loans (to prevent foreclosures) by March 1933 (when FDR was inaugurated).

### **Declining trade with other nations**

Hoover supported the Smoot-Hawley Tariff of 1930, which raised American tariffs to the highest levels ever, and set off a chain reaction of tariffs in other countries—causing foreign trade among many nations to plummet. It is reasonable enough to see why many wanted this tariff—if companies were to retain high wage rates, they wanted

protection in the marketplace from foreign companies that were under no such guidelines—but the consequences of the tariff were not all good.

From 1929 to 1933, exports decreased 61% from \$5.4 billion to \$2.1 billion, as other nations raised tariffs (and the world economy plunged into the Depression). Now with the American GDP losing half its value in this time (dropping from roughly 100 billion dollars annually to 50), you can't place the blame for this on the decline in exports (from five to two billion dollars annually), but this sure didn't help matters any. The decline in foreign trade meant two things: (1) unemployment would increase, because export industries would get shut down; (2) in a crumbling economy, asking people to spend more for the same items would lower their standard of living even more.

### *Tax Increases*

Personal exemptions were reduced sharply to increase the number of taxpayers, and rates were sharply increased. The lowest marginal rate rose from 1.125 percent to 4.0 percent, and the top marginal rate rose from 25 percent on taxable income in excess of \$100,000 to 63 percent on taxable income in excess of \$1 million as the rates were made much more progressive. We now understand that such a huge tax increase does not promote recovery during a contraction. By reducing households' disposable income, it led to a reduction in household spending and a further contraction in economic activity.

So while Hoover's spending and tax programs were not nearly as large as FDR's were, in no way can anyone say that Hoover's "free-market" solutions didn't work. He didn't utilize free market solutions, but big government solutions, and as they were implemented, the American economy plunged deeper into the worst Depression that we have record of. The lessons from the depression of 1920, the tax cuts from 1921 onward, and the subsequent economic boom were lost on Hoover and Roosevelt, as they reversed the process, and raised income taxes steeply.

## *PART FOUR: The New Deal*

### **Early Legislation**

Almost immediately after taking office in March 1933, Roosevelt began what would be known as the First Hundred Days, which lasted until June 16, 1933. On March 6, the new President called a nationwide bank holiday, and on March 9 Congress passed the Emergency Banking Act, which provided for federal bank inspections, as well as gave him approval to shut down any insolvent bank. The Banking Act of 1933 (also known as the Glass-Steagall Act of 1933—sponsored by two congressmen, Sen. Glass and Rep. Steagall) established deposit insurance in the United States and prohibited banks from underwriting or dealing in securities. Through this insurance program, the FDIC has prevented bank runs in American banks for almost seven decades now. Depositors don't worry about their money, as they know that the federal government will insure any money they have deposited in a bank. To date, although the FDIC has placed limits on the amount of money for each depositor, that it will ensure (originally it was \$2,500 per depositor per insured bank; that figure has now grown to \$250,000). Some have argued, however, that the knowledge that the federal government will pick up the tab for any lost deposits, has made banks more reckless in pursuit of profits than they should have been, which makes them more likely to make bad loans and investments; additionally, this makes the US taxpayer liable for all of the \$5.3 trillion in insured deposits.

Several bills provided mortgage relief for farmers and homeowners and offered loan guarantees for home purchasers through the Federal Housing Administration (FHA). The Federal Emergency Relief Administration expanded existing relief grants to the states and resulted in programs spending \$8.5 billion, providing jobs and assistance for over 15 million people. The Civilian Conservation Corps (CCC) provided work relief for thousands of young men under a type of military discipline. Congress established the Tennessee Valley Authority (TVA) to develop the Tennessee River in the interest of navigation and flood control and to provide electric power to a wide area of the southeastern United States. The TVA was to cover a seven-state area and supply cheap electricity, prevent floods, improve navigation, and produce fertilizer.

Congress in 1933 enacted a complex new farm bill, the Agricultural Adjustment Act. It provided several mechanisms to help raise agricultural prices, but the one most extensively used provided for government payments to farmers who destroyed or did not grow surplus crops. At a time when economic hardship was leaving people in other areas in need of food, the act outraged many. Since cotton plantings were thought to be excessive, cotton farmers were paid to plow under one-quarter of the forty million acres of cotton to reduce marketed production to boost prices. Most of the payments went to the landowners, not the tenants, making conditions desperate for tenant farmers. Though landowners were supposed to share the payments with their tenant farmers, they were not legally obligated to do so and most did not. As a result, tenant farmers, predominantly black tenants, received none of the payments and less or no income from cotton production after large portions of the crop were plowed under. Under the Acts, Secretary of Agriculture and future vice president Henry Wallace had farmers plow

under some 10 million acres of cotton, as well as the destruction by exposure and lack of water, of another 20 million acres of grain (over the winter and spring, from 1933-34). Hog farmers were paid to slaughter some 6 million young pigs. As Roosevelt's critics responded with outrage, raising the price of wheat \$1 per bushel to help the farmer was hurting the people who bought bread made from that wheat, by the same amount.

The National Industrial Recovery Act (NIRA) was the most innovative early New Deal measure. It provided for two major recovery programs—a vastly expanded public works effort, carried out by the Public Works Administration, and a complex program to regulate American business and ensure fair competition. The National Recovery Administration (NRA) approved and enforced a set of competitive codes for each industry to help ensure fair competition in each. It was granted authority to help shape industrial codes governing trade practices, wages, hours, child labor, and collective bargaining.

The hopes of 1933 for early recovery proved illusory. Even though real GDP was growing at a 9% rate from 1933 onward, unemployment never dropped below 14% in the 1930s, and the median rate was 17% during Roosevelt's time in office.

### **The Second New Deal**

These reverses triggered a second flood of legislation, beginning in 1935, which some observers called the Second New Deal. Among the new measures were higher taxes for the rich, strict regulations for private utilities, subsidies for rural electrification, and granting certain rights to organized labor. Under the guidance of Secretary of Labor Frances Perkins, the National Labor Relations Act (also known as the Wagner Act for its sponsor, Robert Wagner) of 1935 gave federal protection to the bargaining process for workers and established a set of fair employment standards. The federal Fair Labor Standards Act of 1938, the last major domestic program launched by the Roosevelt administration, mandated maximum hours and minimum wages for most categories of workers.

Perhaps the most far-reaching programs of the entire New Deal were the Social Security measures enacted in 1935 and 1939, providing old-age and widows' benefits, unemployment compensation, and disability insurance. This program contained three major programs—a retirement fund, unemployment insurance, and welfare grants for local distribution (including aid for dependent children). These programs, coupled with a new subsidized public housing program, began what some now refer to as a welfare state.

A huge relief appropriation of almost \$5 billion reinvigorated several programs and funded a new federalized work relief program administered by the Works Progress Administration (WPA).

## ***PART FIVE: Problems with New Deal Policies***

Roosevelt pushed through a new tax on undistributed corporate profits, expecting this to cause firms to pay out undistributed profits in dividends. Though some firms did pay out part of the retained earnings in larger dividends, others, such as the firms in the steel industry, also paid bonuses and raised wage rates to avoid paying their retained earnings in new taxes. As these three policies came together, real hourly labor costs jumped without corresponding increases in demand or prices, and firms responded by reducing production and laying off employees.

The most damaging policies were those at the heart of the recovery plan, including the NIRA, which tossed aside the nation's antitrust acts and permitted industries to collusively raise prices provided that they shared their newfound monopoly rents with workers by substantially raising wages well above underlying productivity growth. The NIRA covered over 500 industries, ranging from autos and steel, to ladies hosiery and poultry production. Each industry created a code of "fair competition" which spelled out what producers could and could not do, and which were designed to eliminate "excessive competition" that FDR believed to be the source of the Depression.

One example of how the cartels were to the benefit of large companies, despite Roosevelt's populist rhetoric, was the case of Jacob Mage, a 49-year-old immigrant. In April 1934, he was fined and jailed for three months after charging 35 cents to press a suit, rather than the 40 cents mandated by the National Recovery Administration's dry cleaning code.

The Robinson-Patman Act, amending the Clayton Antitrust Act in 1936, made it illegal for A&P and King Kullen (the Wal-marts of their day) to share discounts on volume purchases with consumers. FDR struck another blow against consumers by signing the Miller-Tydings Retail Price Maintenance Act in 1937. That act amended the Sherman Act to let manufacturers fix the retail prices of branded merchandise and stop chain stores from offering great discount prices. In 1938 FDR signed into law the Civil Aeronautics Act, which enabled the federal government to enforce an airline cartel. For 40 years, not a single license was issued for a new interstate airline, and consumers were hit with high fixed fares. This didn't change until the deregulation of airlines came in the 1970s.<sup>6</sup>

The downturn of 1937-38 was preceded by large wage hikes that pushed wages well above their pre-NIRA levels, following the Supreme Court's 1937 decision that upheld

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<sup>6</sup> A 1996 Government Accountability Office report found that the average fare per passenger mile was about 9% lower in 1994 than in 1979. Between 1976 and 1990 the paid fare had declined approximately 30% in inflation-adjusted terms. Airfares, when adjusted for inflation, have fallen 25 percent since 1991, and, according to Clifford Winston and Steven Morrison of the Brookings Institution, are 22 percent lower than they would have been had regulation continued (Morrison and Winston 2000). Since passenger deregulation in 1978, airline prices have fallen 44.9 percent in real terms according to the Air Transport Association. As prices have decreased, air travel has exploded. The total number of passengers that fly annually has more than doubled since 1978. Travelers now have more convenient travel options with greater flight frequency and more nonstop flights. Fewer passengers must change airlines to make a connection, resulting in better travel coordination and higher customer satisfaction.

the constitutionality of the National Labor Relations Act. These wage hikes led to further job loss, particularly in manufacturing. This downturn was not the result of a reversal of New Deal policies, as argued by some, but rather a deepening of New Deal policies that raised wages even further above their competitive levels, and which further prevented the normal forces of supply and demand from restoring full employment.

### **Funding the New Deal**

During the 1930s, federal tax revenues more than tripled, from \$1.6 billion in 1933 to \$5.3 billion in 1940. The Revenue Act of 1932 increased American tax rates greatly in an attempt to balance the federal budget, and by doing so it dealt another blow to the economy by further discouraging investment. Federal taxes as a percentage of the gross national product jumped from 3.5 percent in 1933 to 6.9 percent in 1940. Ordinary people were directly hit with higher liquor taxes and Social Security payroll taxes (even though a small amount of lump-sum Social Security payments were made in 1935, when Social Security taxes were first levied, the monthly payments didn't start until 1940—and so for over four years, the government was taxing people for this program without giving anything of substance back).

Despite the recession of 1937–38, real GDP in the United States was well above its pre-Depression level by 1939 (this is sometimes diluted by the fact that prices were lower in 1939, which made the nominal GDP lower in 1939). At the same time, the U.S. economy was still somewhat below trend at the start of the war, and the unemployment rate averaged just under 10 percent in 1941. The number of unemployed workers declined by 7,050,000 between 1940 and 1943, but the number in military service rose by 8,590,000. The reduction in unemployment can be explained by the draft, not by the economic recovery

## **PART SIX**

### *Supreme Court Reaction*

Much to the chagrin of Roosevelt, much of his legislation was declared unconstitutional by the Supreme Court. The Supreme Court ruled the National Industrial Recovery Act unconstitutional on May 27, 1935, and the Agricultural Adjustment Act unconstitutional on January 6, 1936. These rulings were made on the grounds that neither the commerce nor the taxing provisions of the Constitution granted the federal government authority to regulate industry or to undertake social and economic reform. Roosevelt didn't back down. In 1937, he proposed to pack the court. He wanted to appoint six new justices (in addition to the nine who were already there), which would have decidedly turned the court in his favor. This proposal met with vehement opposition and ultimate defeat (let's face it—what good is having a separate and independent judicial system, if the president can pack it with his supporters whenever he wants?), but the court meanwhile started ruled in favor of New Deal legislation in subsequent court cases—so even though he lost the battle, he won the war.

### *Impact on Public Policy*

The Great Depression (and Roosevelt's New Deal) played a very historic role in promoting government policies promoting government activism, putting money into the hands of the people (what cynics call "tax-and-spend" policies). British economist John Maynard Keynes became the mouthpiece of such strategies, and he developed the ideas in his 1936 book *General Theory of Employment, Interest, and Money*. Keynes's theory suggested that economic declines could be counteracted by increases in government spending, which would put money in the hands of the people, who as consumers, would purchase products which in turn would stimulate the economy. Both the Democrats and Republicans gradually bought into Keynes' ideas; in 1971, President Richard Nixon uttered a phrase that was very significant: "We're all Keynesians now."<sup>7</sup> This continued to be true until the Presidency of Ronald Reagan, when the policy of the 1920s was brought back (that of cutting taxes to spur business investment).

In more modern terms, Keynes promoted "demand-side" economics, in which consumers were given more money to spend (via tax cuts and government spending programs), which would be used to purchase goods. These purchases would stimulate the economy by ensuring that businesses can sell their products (because their customers still have money), and retain their employees (because they can still count on selling their products)—both of which limit the effects of an economic decline—at least, according to Keynes' theory.<sup>8</sup>

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<sup>7</sup> This is not to say that conservative and liberal approaches to economics are the same. Far from it. Conservatives will emphasize tax cuts, liberals will emphasize government spending programs (and tax increases, to pay for them).

<sup>8</sup> The contrast to this approach is "supply-side" economics (adopted in the Reagan years), in which businesses and investors are given tax cuts, ensuring larger profits, which are then pumped into the

There are several counter-arguments to the idea that “the New Deal saved America (and capitalism) from the Depression.” One is historical—that the same policies (implemented by Hoover) saw the economy drop from 1929 through 1933, without any alleviation. If there was a stop to the decline, perhaps it wasn’t because of these policies. Yes, it is true that the economy grew at a 9 percent rate from 1933 onward, but any policy will look good, if you take the worst year as your starting point—there would be no way to go but up. And so one free-market critique of the New Deal would be that much the same policies had been applied during the previous three years, while the economy plunged deeper and deeper into the Depression. A second would involve a comparison with the approach taken by President Harding in response to the 1920 post-WWI decline: cutting taxes. The American economy during the 1920s grew by leaps and bounds. To bolster these claims, the free-market critics of the New Deal would argue that the tax increases from 1932 onward were accompanied by high unemployment. See the following table:

Comparison of Unemployment and Federal Expenditures

	Unemployment (%)	federal budget (\$ billion)
1929	3.2	3.8
1932	25	4.7
1936	17.5	9.2
1937	15	8.8
1938	20	8.4

Looking at the continually high unemployment rate throughout the 1930s, as well as the drastic increases in government spending (the costs of FDR’s New Deal), it’s hard to say that the New Deal saved America from the Depression.

### *Evaluation*

Supporters of big government have long since seen the Great Depression as being brought about by capitalism that cannot control wild swings in the economy; supporters of free market capitalism have insisted that such swings have largely been the result of government interference, and the *abandonment* of free markets. They can point to the policies of FDR—income tax increases, laws restricting competition among companies, as well as keeping wages high—that continued the unemployment that plagued our nation. The lesson from the 1920s (about lowering income taxes to spur the economy, and getting more tax revenue as a result) seems to have been lost in the 1930s.

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economy, as more business ventures are now made more profitable than before. Groups that benefit from government spending (government unions and aid recipients) tend to promote Keynes’ approach, while wealthy investors will often argue for supply-side solutions.