

Revisiting The New Deal: Lessons For A World In Dire Need Of Sustainable Social Change And Economic Development



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Few policies and programs designed to promote economic recovery and social reform have attracted as much attention as those associated with President Franklin D. Roosevelt's *New Deal* during the 1930s when the U.S. economy had plunged into its worst economic crisis in its history. And with good reason: the New Deal programs, although initially opposed by the major financial and corporate interests of the country, partly out of horror that they represented a step towards "socialism" and partly out of fear that they would pose an obstacle to their profit-maximizing pursuits by narrowing the scope of labor exploitation, kept capitalism alive and staved off social unrest and rebellion. The New Deal planners achieved this by abandoning the myth of pro-market solutions to economic crises and relying instead on a set of massive government interventions.

Among other things, the New Deal programs centralized planning (National Industrial Recovery Act) and funded under this plan the construction of large-scale public works (Public Works Administration) as a means of providing employment for millions of jobless workers, reformed the banking system with the

Glass-Steagall Act, provided integrated solutions to the needs of the economies of several depressed Southern state (Tennessee Valley Authority) and set up a federally-guaranteed pension system (Social Security Act).

The New Deal programs provide a glowing example of how powerful the role of government can be in rescuing an economy from complete collapse, delivering relief to millions of lives tossed aside by a socio-economic system with an inherent tendency to treat people as if there were things, and reducing the gap between rich and poor.

The New Deal wasn't a revolution, but it did save many people's lives. It did not end the depression, but it might have (although this is still highly debatable) if FDR hadn't decided in 1937 to cut back stimulus because of his concerns about inflation and the federal deficit. The New Deal also laid the basis for what could have been very positive changes in the years that followed, had it not been beaten back by the bitter class war fought by what Noam Chomsky calls "the highly class conscious business classes,"[i] assisted by the powerful weapon of anti-communist hysteria.

Thus, the New Deal is widely seen as one of the greatest experiments of active state intervention under capitalism, so it's little wonder why the political thinking behind the New Deal-era projects is also regarded by many as an ideal model to inform policy intervention in today's world as the advanced capitalist economies are once again in the throes of a serious economic and social crisis marked by stagnant or anemic growth, rising unemployment and social exclusion, extreme levels of inequality, and rapidly declining standards of living.

While far from being thoroughly Keynesian, some of the New Deal projects fall firmly into counter-cyclical demand management schemes, especially some of the second New Deal programs such as the Works Progress Administration (1935-1943), and it is primarily these aspects of the New Deal experimental programs (including the Civil Conservation Corps) that serve as a guide to the call of many progressive and non-orthodox economists for the adoption of a New Deal for the 21st Century.[ii]

However, aside from the obvious question as to whether it is feasible to resurrect the reformist zeal of the New Deal in today's world, there are some annoying facts about active state intervention under capitalism as well as some disturbing

realities about capitalism itself which cannot be overlooked or ignored by those committed to an alternative social order.

First and foremost, the *raison d'être* of active state intervention in a capitalist regime is none other than to save capitalism itself. The recent bailouts of the financial system both in the United States and in Europe constitute the most blatant form of active state intervention for the purpose of saving capitalism from collapse. Indeed, when the collapse of the capitalist system seems imminent, suddenly “socialism” is a great idea. In this case, active state intervention in the form of bank bailouts and quantitative easing is socialism for the rich. Same goes for the outrageous taxpayer subsidies to business, which has led to the creation of an enormous corporate welfare state.[iii]

Second, it has always been the case that most of those seeking to reform capitalism are committed to doing so because they reject any alternative to private wealth accumulation and are in fact blatantly against schemes advocating the creation of a socioeconomic system whereby collective ownership—either at the national or community level— and participatory democracy constitute the principal elements of the new social order.

While this is not to suggest by any stretch of the imagination that reform is undesirable or useless (the New Deal experience should have dispelled such narrow-minded views long ago), reforms by those committed to an alternative social order must necessarily be assessed on grounds for laying the basis for the transcendence of capitalism and eventually the emergence of a new socio-economic order that provides hope for an end to the waste of resources and of workers' lives and a future based on ecologically sustainable development. Lest we forget, capitalism is an inherently crisis-prone socio-economic system and thus much more needs to be done than temporarily taming the appetites of the beast for waste, exploitation, inequality, ecological degradation, dispossession, and violence. Even under the New Deal programs, millions of people were still without jobs and the Great Depression ends only with the outbreak of WW II and the full incorporation of the U.S. economy into the war effort. Moreover, the New Deal programs did not seek to end exploitation or give workers a greater say in decision making. In this context, it is instructive for a world in dire need of radical social change and sustainable and equitable economic development to attempt to draw the proper lessons from the New Deal experience. Any economic doctrine advocating [abstract growth] and/or relying on policies that aim to attain

continuous economic growth under the current system (as the old-fashioned Keynesians are still striving for in a constant attempt to save capitalism from its own contradictions)) needs to be completely rejected if there is to be hope for an end to the waste of resources and of workers' lives and a future based on ecologically sustainable development. At this point in the evolution of society [iv], a successful economy without the drive for continuous economic growth via capital accumulation should be both very much possible and desirable.[v]

The Ultimate Effects of the Great Depression and the Raison D'être of the New Deal-era Programs

Just like the financial crisis of 2007-08 that was initiated with the collapse of Lehman Brothers, the collapse of the U.S. stock market in October 1929 which led to the Great Depression of the 1930s took capitalists by surprise, although there were clear signs that the American economy was in trouble several years before the crash, as the late economic historian Charles Kindleberger has shown in his now classic work *The World in Depression, 1929-1939*. As he writes in this book, "March was" the peak of automobile production, which fell from 622,000 in that month to 416,000 in September, at the height of the stock market. The industrial production index fell after June, and the decline in industrial production, prices and personal income from August to October was at annual rates of 20, 7 ½ and 5 percent.[vi] The agricultural sector, still quite important in terms of its impact on the U.S. economy, had been in a state of depression since 1920 and "farm incomes ceased to rise after 1925.[vii] Residential and nonresidential construction had been in a state of slump since the early 1920s and begun to decline after 1925 as well.[viii] Just like the contemporary era and prior to the outbreak of the financial crisis of 2007-08, income inequality in the United States was growing at a tremendous pace throughout the 1920s. Between 1920 and 1929, the top 5% of the population increased its share of the national income from 24% to 34%.[ix] The collapse of thousands of banks before the crash pointed to a severe malfunction in the U.S. banking and financial system.

Following the collapse of the stock market, the U.S. economy took a rapid and catastrophic nose-dive. As the depression set in, nearly forcing capitalists to close shop for good, industrial production fell by over 50% in 1932, salaries decreased by 40%, manufacturing wages shrank by 60%, over 200 banks closed and one-fourth of the labor force was unemployed.[x] Between 1929 and 1933, the national income dropped by 54%.[xi] Gross domestic investment declined by

89%.[xii] Between 1930 and 1941, "actual GNP was nearly 25% below the economy's potential." [xiii] Farmers suffered the most extensive damage because of the Depression as gross farm income dropped from \$11.9 billion in 1929 to \$5.3 billion in 1933.[xiv]

The figures cited above should provide a vivid picture of the catastrophic state of the U.S. economy in the early 1930s because of the Great Depression[xv] Thus, that something had to be done about it was not in question, although it was far from clear what should be done to get the economy and the country out of this horrendous situation. Socialism was certainly not on the agenda. The voices calling for radical economic change were always few and far in between throughout the modern history of the United States, and the labor movement had experienced an abrupt decline in union membership and activities throughout the 1920s, partly as a result of the red scare of the late 1910s and early 1920s which not only made joining a union seem "un-American" but "helped to wreck the momentum of labor's wartime gains," [xvi] partly as a result of anti-union ruling by U.S. courts in the 1920s, and partly as a result of the booming economy of the 1920s which reduced substantially the number of strikes throughout the nation as it made workers feel secure about their job and their income. All that remained therefore was some type of Keynesian state capitalism or some variation of fascism inspired by the ideologies of Mussolini and Hitler.[xvii]

Herbert Hoover had been in office only a few months before the Wall Street crash of 1929 and his approach to the Great Depression that followed has ensured him a measure of notoriety which may or may not be justified. No doubt, Hoover's economic policies were of no help in dealing with the destructive effects of the Great Depression, but at the same time they have been the victim of a rather caricaturist treatment in comparison with the policies of his successor, Franklin Delano Roosevelt. Indeed, the truth of the matter is that FDR's early economic policy for dealing with the Great Depression consisted in many respects of the mere expansion of Hoover's policies while the New Deal programs that eventually came into being "embodied no single approach to political management of the economy." [xviii]

For starters, while it is true that Hoover believed in and preached the ideology of laissez-faire capitalism, and also seemed to be convinced that what had taken place in October 1929 was something of a "natural" market readjustment, his actual economic policies were in favor of protectionism and actually "led the

government into terrain that would normally be off-limits.□[xix] (Decades later there would be yet another U.S. president who would adopt a similar posture i.e., preaching the virtues of free market capitalism while practicing the most blatant form of protectionism, i.e., Ronald Reagan). Hoover did oppose calls for federal intervention even when the economy had hit rock bottom, but his administration created government agencies — such as the Reconstruction Finance Corporation — to combat the Great Depression, sought to establish a harmonious relationship between business and labor and even adopted a high wage policy, tried to foster a close collaboration between state government and the private sector, and promoted (though on a very limited scale) public works projects (San Francisco Bay Bridge, Los Angeles Aqueduct, and Hoover Dam).

While a believer in a balanced budget (Hoover increased taxes on high earners in 1931 and 1932), the fact of the matter is that federal spending increased significantly during his administration (although it was clearly not enough to make not one iota of a difference): □according to the historical tables of the Office of Management and Budget, spending in 1929 was \$3.1 billion, up from \$2.9 billion the year before. In 1930 it was \$3.3 billion. In 1931, Hoover raised spending to \$3.6 billion. And in 1932, he opened the taps to \$4.7 billion, where it basically stayed into 1933 (most of which was a Hoover budget). As a percentage of GDP, spending rose from 3.4% in 1930 to 8% in 1933—an increase larger than the increase under FDR, though of course thankfully under FDR, the denominator (GDP) had stopped shrinking.□[xx]

If this is hard to believe, given the still prevailing view of Hoover as a president who stood by idly, doing nothing to stop the free fall of the American economy, consider the fact that FDR, lo and behold, was attacking Hoover during the 1932 campaign for overspending as well as for advocating an interventionist economy. For the doubting Thomases, in an address at Sioux City, Iowa, on September 29, 1932, this is what the next president of the United States and the man whose reform policies would change forever the relationship between government and the economy had to say about Hoover's economic policies: □I accuse the present Administration of being the greatest spending Administration in peace times in all our history. It is an Administration that has piled bureau on bureau, commission on commission, and has failed to anticipate the dire needs and the reduced earning power of the people. Bureaus and bureaucrats, commissions and commissioners have been retained at the expense of the taxpayer.□[xxi]

FDR was a shrewd politician, so it is possible that what he was saying in public in 1932 and what he knew that had to be done once in office in order to stop the hemorrhage of the American economy and the immense suffering of millions of working people may be two different things. However, it is more likely, given FDR's background, that he also believed in 1932 that the Great Depression would soon come to an end if orthodox fiscal economics were pursued with rigor and consistency. How else to explain the fact that he was advocating a balanced budget even in his 1932 campaign? Indeed, there is evidence that FDR believed in balanced budgets even after he took office and that he considered the expenditure for work and relief programs as separate from normal government outlays.[xxii]

In this context, FDR's economic thinking was in all likelihood not very different from that of Herbert Hoover. They both espoused conventional views on fiscal policy and were staunch supporters of capitalism and firm believers in the individual capitalist ethos. It is also beyond doubt that both Hoover and FDR began to advance public works programs because they feared working class rebellions, which could have made any effort to restoring capitalism a vain undertaking.[xxiii] In fact, aside from mob looting that first took place once unemployment became widespread, "farmers and unemployed workers took direct action against what they saw as the causes of their plight"[xxiv] and political demonstrations running into tens of thousands, with people marching under Communist Party banners with slogans such as "*Fight Don't Starve*," became a common feature of the early years of the Great Depression in many cities throughout the United States.[xxv]

All of the above assumptions seem to carry considerable validity as the first hundred days of the Roosevelt administration were marked by rather moderate undertakings, the most important of which was the establishment of the Civilian Conservation Corps (CCC), a project that provided work in the national forests for some 2.5 million predominantly white men. The Federal Emergency Relief Administration (FERA) was also created during the first one hundred days, but the relief programs proved to be quite inadequate.

Traditionally, the New Deal has been divided into two parts. The first part covers the period between 1933 to 1934, and it is associated with lukewarm attempts to address some of the problems caused by the Crash of 1929. The second part covers the period between 1935 to 1937, and involves the reform measures

undertaken to solve the deep, structural social problems caused by the Great Depression.[xxvi] Tackling unemployment on a grand scale and providing a social welfare system are part of the second New Deal and form the great legacy that FDR left behind.

However, even the most ambitious New Deal programs to tackle unemployment, such as the Works Project Administration (WPA), established in 1935 by executive order and employing nearly three and a half million by 1936, fall way short of eliminating unemployment. Nor did they manage to eliminate poverty or provide a major boost to long-term economic growth.[xxvii] There were 15 million unemployed people in the United States in 1933 and the number of the unemployed was still over 10 million in 1938. And, by 1939, U.S. GDP (at \$85 billion) still remains way below the 1928 levels (at \$100 billion), although there was of course significant economic improvement between 1933 and 1939.[xxviii]

At the same time, though, it is also important to point out that the U.S. economy experiences a sharp decline between 1937-1938 as a result of FDR's growing concerns with inflation and the federal deficit, which goes on to show what would have been the result had the recovery of the US economy from the devastating effects of the Great Depression relied purely on the ability of the private sector and the alleged magic of the market forces to turn things around. Nonetheless, it is ultimately the outbreak of World War II that pushes the US economy out of the Great Depression as all economic resources are being mobilized towards war production. Indeed, it the New Deal programs saved capitalism from collapse, World War II not only brought to an end the biggest economic crisis that had ever faced the US economy but set the stage for the consolidation of the rise of the United States as a global superpower — a process that had been under way since the end of the First World War with the onset of the crisis of colonial empires.

Is a Global New Deal Possible in Today's Capitalist Environment?

While the New Deal experiment continues to fascinate growth-oriented economists and progressive minded people in general, today's economic, political and social environment is hardly conducive for the undertaking of such a project by any national government in the western world.

In the age of globalization and the financialization of the economy, where neoliberalism reigns supreme, organized labor is in deep retreat, and public debt has shot through the roof in all major advanced economies and thereby producing

an ideological convergence among conservatives and most social democrats on fiscal affairs, the undertaking of an economic program along the lines of FDR's New Deal is neither politically nor economically realistic. Moreover, a new New Deal will do nothing to solve the underlying problems of capitalism and, most likely, delay the need to combat climate change through its emphasis on boosting growth via a new era of state capitalism.

No doubt, what the world needs today is not a return to traditional economics of rescuing capitalism but a new global economic model based on new economic values, balanced growth, and the introduction of cooperative economics. A reversal of today's globalization trends may also be necessary for the realistic transition into a new economic model, one that breaks free from a political economy paradigm which, as I have argued elsewhere, "revolves around finance capital, is based on a savage form of free market fundamentalism and thrives on a wave of globalizing processes and global financial networks that have produced global economic oligarchies with the capacity to influence the shaping of policymaking across nations."²⁹

The economic environment of contemporary capitalism is shaped by three interrelated forces: financialization, neoliberalism and globalization. It is the combined effects of these three forces that have given rise to a new form of predatory capitalism in late twentieth and early twenty-first centuries. As such, any project driven by New Deal aspirations needs to implement political processes that will undermine and bring to a halt all three of the above forces.

Having said that, it would be at least naive to think that the proponents of a New Deal, which tend to be mostly of social democratic ilk and remain firmly committed to a capitalist socio-economic order, have the political will to engage in such an undertaking. Indeed, their arguments for a New Deal for Europe and the United States rest on convincing the current economic elite that such a project would be best for the future of capitalism itself. Indeed, New Dealers do not call for the re-organization of the economy nor do they advocate anything resembling economic democracy.

The answers to the problems confronting today's advanced capitalist economies and societies cannot come from within the logic of the very system that is responsible for causing massive unemployment, constantly widening the gap between haves and have-nots, and producing social malaise, alienation, violence,

and social marginalization while at the same time destroying the environment and threatening the end of human civilization as we know it with the phenomenon of global warming, which is not simply caused by human activity but by the dynamics of a specific system of economic and social organization which thrives of capital accumulation.

The answers to the problems of unemployment, inequality, poverty, violence, and environmental degradation can come only through the end of capitalism and its replacement by democratically run forms of economic and social organization, which probably mandate a return to the nation-state and probably to economic localization.

In this context, putting an end to global free trade regimes, reversing the globalization trends of the last 40 years, resisting corporate takeovers and the privatization of national economies, and creating new networks of political activism based on class-politics and centered around a vision of democratic socialism — instead of political activism revolving around the politics of identity and multiculturalism, phenomena akin to contemporary capitalism and whose demands and claims mainstream power readily accommodates — is the only way to put an end to capitalist barbarism.

Whether today's Left is up for that task is however another story.

NOTES

[i] The phrase is encountered in Noam Chomsky's address at the Riverside Church in New York City on June 12, 2009, sponsored by The Brecht Forum and bearing the title *["Crisis and Hope: Theirs and Ours."]*

[ii] See, for example, the work of Heiki Patomaki, *The Great Eurozone Disaster: From Crisis to Global New Deal*. London: Zed Books, 2013, while a more recent attempt to make a case for the implementation of a New Deal in the eurozone is made by French economist Thomas Piketty in *["A New Deal for Europe,"]* *New York Review of Books* (February 25, 2016).

[iii] For the case of the U.S. corporate welfare state, see David Cay Johnston, *["The shocking numbers behind corporate welfare."]* *Al Jazeera America* (February 25, 2014); for the British corporate welfare state, see Aditya Chakraborty, *["Cut Benefits? Yes, let's start with our own £85bn corporate welfare handout."]* *The Guardian.com* (October 6, 2014).

[iv] For a rather unique even if highly controversial review of human and societal

evolution, see Bela H. Banathy, *Guided Evolution of Society: A Systems View*. New York: Springer Publishing Company, 2010.

[v] See Herman E. Daly and John B. Cobb Jr., *For The Common Good: Redirecting the Economy toward Community, the Environment, and a Sustainable Future*. Boston: Beacon Press, 1994.

[vi] Charles Kindleberger, *The World in Depression, 1929-1939*. Berkeley, CA.: University of California Press, 1973, p. 117, quoted in A. G. Kenwood and A. L. Lougheed, *The Growth of the International Economy, 1820-1990*, 3rd ed. New York: Routledge, 1992, p. 225.

[vii] Kenwood and Lougheed, *The Growth of the International Economy, 1820-1990*, p. 224

[viii] Ibid.

[ix] Richard B. Duboff, *Accumulation & Power: An Economic History of the United States*. Armonk, N.Y.: M. E. Sharpe, 1989, p. 87.

[x] Arthur S. Link, William A. Link, and William B. Catton, *American Epoch: A History of the United States Since 1900*, Vol. 1, 6th ed. New York: Alfred A. Knopf, 1987, pp. 228-30.

[xi] Lester V. Chandler, *America's Greatest Depression, 1929-1941*. New York: Harper & Row, 1970, p. 25.

[xii] Ibid., p. 20.

[xiii] Ibid., p. 4.

[xiv] Ibid., p. 229.

[xv] The discussion of the impact of the Great Depression on the U.S. economy that just followed has drawn freely from a book chapter written by the author of the present article and published under the title "The Political Economy of U.S. Imperialism: From Hegemony to Crisis" for a co-edited volume that was put together by Chronis Polychroniou and Harry R. Targ titled *Marxism Today: Essays on Capitalism, Socialism and Strategies for Social Change*. Westport, Conn.: Praeger 1992, pp. 39-70.

[xvi] Robert H. Zieger and Gall J. Gilbert, *American Workers, American Unions: The Twentieth Century*. Johns Hopkins University Press, 3rd ed., 2002, p. 42

[xvii] A BBC Radio 4 investigation claims evidence of a planned coup in the U.S. in the 1930s by a group of wealthy industrialists and bankers with the aim of toppling FRD and imposing a fascist dictatorship. BBC, The Whitehouse Coup, July 23, 2007 at

http://www.bbc.co.uk/radio4/history/document/document_20070723.shtml

[xviii] Eric Rauchway, *The Great Depression & the New Deal: A Very Short Introduction*, New York: Oxford University Press, 2008, p.4

[xix] William J. Barber, "FDR's Big Government Legacy." Federal Reserve Bank of Boston, *Regional Review*, Vol. 7. No. 3 (Summer 1997). http://www.bostonfed.org/economic/nerr/rr1997/summer/barb97_3.htm

[xx] Cited in Megan McArdle, "Hoover was no Budget Cutter." *The Atlantic*, July 6, 2011. http://www.theatlantic.com/business/archive/2011/07/hoover-was-no-budget-cutter/241665/#disqus_thread

[xxi] Franklin D. Roosevelt, *Public Papers of the Presidents of the United States: F. D. Roosevelt, 1928-1932*, Volume 1, "Campaign Address on Agriculture and Tariffs at Sioux City, Iowa. September 29, 1932." p. 761.

[xxii] Franklin D. Roosevelt Presidential Library and Museum, "FDR: From Budget Balancer to Keynesian: A President's Evolving Approach to Fiscal Policy in Times of Crisis" at <http://www.fdrlibrary.marist.edu/aboutfdr/budget.html>

[xxiii] This point is made with much conviction by Nancy E. Rose in her book *Put to Work: The WPA and Public Employment in the Great Depression*, New York: Monthly Review Press, 2nd ed. 2009.

[xxiv] Mary Beth Norton, Jane Kamensky, Carol Sheriff, David W. Blight, Howard P. Chudacoff, Fredrik Logevall, and Beth Bailey. *A People and a Nation*, Volume II: Since 1865, 10th ed.. Stamford, CT: Cengage Learning, 2014, p. 655.

[xxv] See Frances Fox Piven and Richard Cloward, *Poor People's Movements: Why They Succeed, How They Fail*. New York: Vintage Books, 1979, Chapter 2.

[xxvi] Neil A. Wynn, *The A to Z of the Roosevelt-Truman Era*. Lanham, MD.: Scarecrow Press, 2009, p. 354.

[xxvii] An extremely well balanced account of the effects of the New Deal programs and their actual impact on American economy and society can be found in William E. Leuchtenburg, *Franklin D. Roosevelt and the New Deal: 1932-1940*. New York: Harper Perennial, 2009).

[xxviii] Unemployment and GDP figures for the periods cited are derived from http://www.historylearningsite.co.uk/New_Deal_success.htm

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