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What the New Deal Did

At the heart of the New Deal there was not a philosophy but a temperament.

—Richard Hofstadter, *The American Political Tradition*, 1948

Not with a bang, but a whimper, the New Deal petered out in 1938. Roosevelt's annual message to Congress in January 1939 was his first in which he did not propose new social and economic programs. "We have now passed the period of internal conflict in the launching of our program of social reform," he announced. "Our full energies may now be released to invigorate the processes of recovery in order to preserve our reforms."[1] As it happened, recovery awaited not the release of more New Deal energies but the unleashing of the dogs of war. Yet the end of reform scarcely meant the end of social and economic change, nor even the end of pursuing those goals the New Deal had championed, especially the goal of security. When the war brought recovery at last, a recovery that inaugurated the most prosperous quarter century America has ever known, it brought it to an economy and a country that the New Deal had fundamentally altered. Indeed, the achievements of the New Deal years surely played a role in determining the degree and the duration of postwar prosperity.

The era of reform might have ended in 1938, but it is worth remembering just how much reform had already taken place by that date. Into the five years of the New Deal was crowded more social and institutional change than into virtually any comparable compass of time in the nation's past. Change is always controversial. Change on the scale the New Deal wrought has proved interminably controversial. Debate about the

1. *PPA* (1939), 7.

New Deal's historical significance, its ideological identity, and its political, social, and economic consequences has ground on for more than half a century. Roosevelt's reforms have become an unavoidable touchstone of American political argument, a talisman invoked by all parties to legitimate or condemn as the occasion requires, an emblem and barometer of American attitudes toward government itself. So just what, exactly, *did* the New Deal do?

It might be well to begin by recognizing what the New Deal did not do, in addition to its conspicuous failure to produce economic recovery. Much mythology and New Deal rhetoric notwithstanding, it did not substantially redistribute the national income. America's income profile in 1940 closely resembled that of 1930, and for that matter 1920.[2] The falling economic tide of the Depression lowered all boats, but by and large they held their relative positions; what little income leveling there was resulted more from Depression-diminished returns to investments, not to redistributive tax policies. Nor, with essentially minor exceptions like the TVA's electric-power business, did the New Deal challenge the fundamental tenet of capitalism: private ownership of the means of production. In contrast with the pattern in virtually all other industrial societies, whether Communist, socialist, or capitalist, no significant state-owned enterprises emerged in New Deal America.

It is also frequently said that the New Deal conformed to no preexisting ideological agenda and that it never produced a spokesman, not even Franklin Roosevelt, who was able systematically to lay out the New Deal's social and economic philosophy. Then and later, critics have charged that so many inconsistent impulses contended under the tent of Roosevelt's New Deal that to seek for system and coherence was to pursue a fool's errand. That accusation has echoed repeatedly in assessments that stress the New Deal's mongrel intellectual pedigree, its improbably plural constituent base, its political pragmatism, its abundant

2. See, for example, Mark H. Leff, *The Limits of Symbolic Reform: The New Deal and Taxation, 1933–1939* (Cambridge: Cambridge University Press, 1984); U.S. Bureau of the Census, *Income Distribution in the United States* (Washington: US GPO, 1966); Simon Kuznets, "Long Term Changes in the National Income of the United States of America since 1870," in Kuznets, ed., *Income and Wealth Series II* (Cambridge: Bowes and Bowes, 1952); Jeffrey G. Williamson and Peter H. Lindert, *American Inequality: A Macroeconomic History* (New York: Academic, 1980); Robert Lampman, *The Share of Top Wealth-Holders in National Wealth* (Princeton: Princeton University Press, 1962).

promiscuities, inconsistencies, contradictions, inconstancies, and failures.[3] What unity of plan or purpose, one might ask, was to be found in an administration that at various times tinkered with inflation and with price controls, with deficit spending and budget-balancing, cartelization and trust-busting, the promotion of consumption and the intimidation of investment, farm-acreage reduction and land reclamation, public employment projects and forced removals from the labor pool? "Economically," one historian concludes with some justice, "the New Deal had been opportunistic in the grand manner."[4]

And yet, illumined by the stern-lantern of history, the New Deal can be seen to have left in place a set of institutional arrangements that constituted a more coherent pattern than is dreamt of in many philosophies. That pattern can be summarized in a single word: security—security for vulnerable individuals, to be sure, as Roosevelt famously urged in his campaign for the Social Security Act of 1935, but security for capitalists and consumers, for workers and employers, for corporations and farms and homeowners and bankers and builders as well. Job security, life-cycle security, financial security, market security—however it might be defined, achieving security was the leitmotif of virtually everything the New Deal attempted. Unarguably, Roosevelt sought to enlarge the national state as the principal instrument of the security and stability that he hoped to impart to American life. But legend to the contrary, much of the security that the New Deal threaded into the fabric of American society was often stitched with a remarkably delicate hand, not simply imposed by the fist of the imperious state. And with the notable exceptions of agricultural subsidies and old-age pensions, it was not usually purchased with the taxpayers' dollars. Nowhere was the artful design of the New Deal's security program more evident than in the financial sector.

AT THE TIP of Manhattan Island, south of the street laid out along the line where the first Dutch settlers built their wall to defend against marauding Indians, beats the very heart of American capitalism. Deep in the urban canyons of the old Dutch city sits the New York Stock Exchange,

3. The classic study of the New Deal's tangled intellectual genealogy in the realm of economic policy is Ellis W. Hawley, *The New Deal and the Problem of Monopoly* (Princeton: Princeton University Press, 1966).

4. James MacGregor Burns, *Roosevelt: The Lion and the Fox* (New York: Harcourt, Brace, 1956), 322.

whence had come the first herald of the Depression's onset. As the Great Crash of 1929 reverberated through the financial system, annihilating billions of dollars in asset values and forcing bank closures, it raised a mighty cry for the reform of "Wall Street," a site that early and late has been beleaguered by threatening hordes incensed at its supposedly inordinate power. The New Deal heeded that cry. Among its first initiatives was the reform of the American financial sector, including the banks and the securities markets. What did it accomplish?

Faced with effectively complete collapse of the banking system in 1933, the New Deal confronted a choice. On the one hand, it could try to nationalize the system, or perhaps create a new government bank that would threaten eventually to drive all private banks out of business. On the other hand, it could accede to the long-standing requests of the major money-center banks—especially those headquartered around Wall Street—to relax restrictions on branch and interstate banking, allow mergers and consolidations, and thereby facilitate the emergence of a highly concentrated private banking industry, with just a few dozen powerful institutions to carry on the nation's banking business. That, in fact, was the pattern in most other industrialized countries. But the New Deal did neither. Instead, it left the astonishingly plural and localized American banking system in place, while inducing one important structural change and introducing one key new institution.

The structural change, mandated by the Glass-Steagall Banking Act of 1933, was to separate investment banks from commercial banks, thus securing depositors' savings against the risks of being used for highly speculative purposes. The same Act created a new entity, the Federal Bank Deposit Insurance Corporation (FBDIC, later simply FDIC). Guaranteeing individual bank deposits up to five thousand dollars (later raised) and funded by minimal subscriptions from Federal Reserve member institutions, the FDIC forever liberated banks and depositors from the fearful psychology of bank "runs," or panics. These two simple measures did not impose an oppressively elaborate new regulatory apparatus on American banking, nor did they levy appreciable costs on either taxpayers or member banks. But they did inject unprecedented stability into the American banking system. Bank failures, which had occurred at the rate of hundreds per year even before the Depression's descent, numbered fewer than ten per year in the decades after 1933.

If speculation and lack of depositor confidence had been the major problems of the banking system, the cardinal affliction of the closely related securities industry had been ignorance. Pervasive, systemic ignorance blanketed Wall Street like a perpetual North Atlantic fog before the New Deal, badly impeding the efficient operation of the securities markets and leaving them vulnerable to all kinds of abuses. Wall Street before the 1930s was a strikingly information-starved environment. Many firms whose securities were publicly traded published no regular reports or issued reports whose data were so arbitrarily selected and capriciously audited as to be worse than useless. It was this circumstance that had conferred such awesome power on a handful of investment bankers like J. P. Morgan, because they commanded a virtual monopoly of the information necessary to making sound financial decisions.[5] Especially in the secondary markets, where reliable information was all but impossible for the average investor to come by, opportunities abounded for insider manipulation and wildcat speculation. "It's easy to make money in this market," the canny speculator Joseph P. Kennedy had confided to a partner in the palmy days of the 1920s. "We'd better get in before they pass a law against it."[6]

The New Deal did pass a law against it, then assigned Joseph P. Kennedy to implement that law, a choice often compared to putting the fox in the henhouse or setting a thief to catch a thief. In 1934 Kennedy became the first chairman of the new Securities Exchange Commission (SEC), one of just four new regulatory bodies established by the New Deal.[7] The SEC's powers derived from statutes so patently needed but so intricately technical that Texas congressman Sam Rayburn admitted he did not know whether the legislation "passed so readily because it was so damned good or so damned incomprehensible." Yet some years later, Rayburn acknowledged that the SEC, thanks in part to the start it got from Kennedy, was "the strongest Commission in the government." A study of the federal bureaucracy overseen by Herbert Hoover called the SEC "an outstanding example of the independent commission at its best."[8]

5. For a vivid description of the workings of the pre–New Deal financial marketplace, see Ron Chernow, *The House of Morgan* (New York: Atlantic Monthly, 1990).

6. Kennedy quoted in Michael R. Beschloss, *Kennedy and Roosevelt: An Uneasy Alliance* (New York: Norton, 1980), 60.

7. The others were the National Labor Relations Board, the Civil Aeronautics Authority, and the Federal Communications Commission. Some existing agencies were also considerably strengthened, notably the Federal Power Commission, the Federal Trade Commission, the Interstate Commerce Commission, and the Federal Reserve Board.

8. Congressman Sam Rayburn and the Hoover Commission Report quoted in Thomas K. McCraw, *Prophets of Regulation* (Cambridge: Belknap Press of Harvard University Press, 1984), 175, 153–54.

For all the complexity of its enabling legislation, the power of the SEC resided principally in just two provisions, both of them ingeniously simple. The first mandated disclosure of detailed information, such as balance sheets, profit and loss statements, and the names and compensation of corporate officers, about firms whose securities were publicly traded. The second required verification of that information by independent auditors using standardized accounting procedures. At a stroke, those measures ended the monopoly of the Morgans and their like on investment information. Wall Street was now saturated with data that were relevant, accessible, and comparable across firms and transactions. The SEC's regulations unarguably imposed new reporting requirements on businesses. They also gave a huge boost to the status of the accounting profession. But they hardly constituted a wholesale assault on the theory or practice of free-market capitalism. All to the contrary, the SEC's regulations dramatically improved the economic efficiency of the financial markets by making buy and sell decisions well-informed decisions, provided that the contracting parties consulted the data now so copiously available. This was less the reform than it was the rationalization of capitalism, along the lines of capitalism's own claims about how free markets were supposed to work.

The New Deal's housing policies provide perhaps the best example of its techniques for stabilizing a major economic sector by introducing new elements of information and reliability. By its very nature, the potential demand for housing was large, widespread, and capable of generating significant employment in countless localities. John Maynard Keynes was not alone in recognizing that housing was a sector with enormous promise for invigorating the economy. Well before Keynes urged Roosevelt to put his eggs in the housing basket, Herbert Hoover had patronized the Better Homes for America Movement in the 1920s. In 1931, as new home construction plunged by 95 percent from its pre-1929 levels, he had convened a national presidential conference on Home Building and Home Ownership. Its very title, especially the latter phrase, advertised Hoover's preferred approach to the housing issue.[9]

As in the banking sector, the New Deal faced a choice in the housing field. It could take Keynes's advice and get behind proposals from congressional liberals like Robert Wagner for large-scale, European-style public

9. For a study of Hoover's policies, see Karen Dunn-Haley, *The House That Uncle Sam Built: The Political Culture of Federal Housing Policy, 1919–1932*, Ph.D. dissertation, Stanford University, 1995.

housing programs, or it could follow Hoover's lead and seek measures to stimulate private home building and individual home ownership. Despite its experimentation with government-built model communities like the so-called Greenbelt Towns (of which only three were built) and its occasional obeisance to public housing programs (as in the modestly funded Wagner-Steagall National Housing Act of 1937), the New Deal essentially adopted—and significantly advanced—Hoover's approach. Two new agencies, the Home Owners Loan Corporation (HOLC) and the Federal Housing Administration (FHA), supplemented by the Veterans Administration's housing program after World War II and the creation of the Federal National Mortgage Association (Fannie Mae) under the auspices of the RFC in 1938, implemented the New Deal's housing program.[10]

The HOLC began in 1933 as an emergency agency with two objectives: to protect defaulting homeowners against foreclosure and to improve lending institutions' balance sheets by refinancing shaky mortgages. With much publicity, the HOLC stopped the avalanche of defaults in 1933, but its lasting legacy was a quieter affair. Just as the SEC introduced standardized accounting practices into the securities industry, the HOLC, to facilitate its nationwide lending operations, encouraged uniform national appraisal methods throughout the real estate industry. The FHA, created in 1934 to insure long-term mortgages in much the manner that the FDIC insured bank deposits, took the next logical step and defined national standards of home construction. The creation of Fannie Mae completed the New Deal's housing program apparatus. Fannie Mae furnished lending institutions with a mechanism for reselling their mortgages, thus increasing the lenders' liquidity and making more money available for subsequent rounds of construction. Taken together, the standardization of appraisal methods and construction criteria, along with the mortgage insurance and resale facilities the New Deal put in place, removed much of the risk from home-lending.

The FHA and Fannie Mae themselves neither built houses nor loaned money, nor did they manage to stimulate much new construction in the 1930s. However, they arranged an institutional landscape in which unprecedented amounts of private capital could flow into the home construction industry in the post–World War II years. The New Deal's hous-

10. The discussion of housing here is much indebted to Kenneth T. Jackson's pioneering work, *Crabgrass Frontier: The Suburbanization of the United States* (New York: Oxford University Press, 1985). Parallel programs, legislated by the Farm Mortgage Refinancing Act of 1934 and the Frazier-Lemke Federal Farm Bankruptcy Acts of 1934 and 1935, gave similar relief to farm owners.

ing policies, cleverly commingling public and private institutions, demonstrated that political economy need not be a zero-sum game, in which the expansion of state power automatically spelled the shrinkage of private prerogatives. Once the war was over, this New Deal "reform" proved not to have checked or intimidated capital so much as to have liberated it. And eventually it revolutionized the way Americans lived.

Before the New Deal, only about four Americans in ten lived in their own homes. Homeowners in the 1920s typically paid full cash or very large down payments for their houses, usually not less than 30 percent. The standard mortgage was offered by a local institution with a highly limited service area, had only a five-to-ten-year maturity, bore interest as high as 8 percent, and required a large "balloon" payment, or refinancing, at its termination. Not surprisingly, under such conditions a majority of Americans were renters.

The New Deal changed all that. Uniform appraisal procedures made lenders much more confident in the underlying value of mortgaged properties. FHA insurance made them less nervous about loans going sour. Consequently, lenders began to accept down payments of 10 percent and to offer thirty-year fully amortized mortgages with level monthly payments. Interest rates on mortgages also came down as the element of risk diminished. Finally, nationally standardized appraisal and construction standards, along with Fannie Mae's national market for mortgage paper, allowed funds to flow out of regions of historic capital surplus to regions of historic capital deficit—that is, from city to suburbs and from the Northeast to the South and West.

The New Deal, in short, put in place an apparatus of financial security that allowed private money to build postwar suburbia and the sun belt. Private money built private homes. Four decades after the New Deal, nearly two-thirds of Americans lived in owner-occupied houses. Only 1 percent, usually the poorest of the poor, lived in public housing. By contrast, in John Maynard Keynes's England, nearly half the population lived in public housing in the early postwar years, as did more than a third of the population of France.[11]

IN THE FINANCIAL AND HOUSING SECTORS, the New Deal built structures of stability by the inventively simple devices of standardizing

11. Jackson, *Crabgrass Frontier*, 224. Jackson also demonstrates that both the private and public housing programs encouraged by the New Deal frequently reinforced and even exacerbated racial segregation in housing. It is also worth noting that by the 1990s Britain had substantially abandoned the public housing model, and a majority of Britons had become homeowners.

and promulgating relevant information and by introducing industry-wide self-insurance schemes that calmed jittery markets and offered dependable safeguards to capital. In many other sectors, the New Deal's technique was somewhat less artful; it was, simply, to suppress competition, or at least to modulate its destructive effects. But everywhere the objective was the same: to create a uniquely American system of relatively riskless capitalism.

The New Deal applied its crudest version of the anticompetitive approach to the chronically volatile agricultural sector. There it contained destabilizing competition with the ham-handed device of simply paying producers not to produce, keeping price-depressing surpluses off the market altogether. Some of the same logic of mandatory and even subsidized reduction of competition was also apparent in the New Deal's treatment of labor markets. Franklin Roosevelt declaimed about social justice in his campaigns for the Social Security Act and the Fair Labor Standards Act, and he achieved much justice, too. But those acts also shaped a manpower policy that had nearly as much to do with stability, plain and simple, as it did with social justice. Prohibitions on child labor, combined with virtually obligatory retirement by age sixty-five, statutorily shrank the size of the labor pool and therefore reduced wage competition. Retirees were, in effect, paid not to work, just as farmers were paid not to produce (though all but the first generation of Social Security pensioners were ostensibly paid from their own forced-savings accounts, while farmers unapologetically drew their subsidies from general treasury revenues). The Fair Labor Standards Act, as well as the industry-wide bargaining power of the new CIO unions, also built broad floors under wages and thereby further reduced the ability of employers and employees alike to compete by lowering labor costs.

In some sectors, new regulatory commissions provided orderly forums where the rules of competition could be agreed on and the clash of interests accommodated in a peaceful manner. The National Labor Relations Board provided a compelling example of that technique. Elsewhere, as in large infrastructural industries like transportation, communications, and energy, as well as in the wholesale distribution and retail marketing sectors, the New Deal sought stability by directly curtailing price and cost competition, often by limiting new entrants. The Civil Aeronautics Board, created in 1938, performed those functions for the infant airline industry; the Interstate Commerce Commission for the older railroad industry, and, after the passage of the Motor Carrier Act of 1935, for truckers as well. The Federal Communications Commission, born in 1934, did the same for telephones, radio, and, later, television; the Federal Power Commission, though with more difficulty, for oil and gas production. The Federal Trade Commission, newly empowered by two New Deal "fair trade" laws, was charged with limiting price competition in the retail and wholesale trades. (The Robinson-Patman Act of 1936 prohibited chain stores from discounting below certain stipulated levels, a way of insulating "mom-and-pop" corner stores against aggressive price pressure from the high-volume giants. The Miller-Tydings Act of 1937 legalized price-maintenance contracts between wholesalers and their distributors, a way of stabilizing the prices of nationally marketed name-brand goods.)

The creation of this array of anticompetitive and regulatory instruments has often been criticized as an inappropriate response to the Great Depression. The economic historian Peter Temin, for example, writes that "the New Deal represented an attempt to solve macroeconomic problems with microeconomic tools."[12] That judgment rests on the assumption that solving the macroeconomic problem of insufficient demand and high unemployment by inducing economic recovery was the New Deal's highest priority. Certainly Roosevelt said on countless occasions that such was his goal. But if actions speak louder than words, then it may be fair to conclude that perhaps not in stated purpose, but surely in actual practice, the New Deal's premier objective, at least until 1938, and in Roosevelt's mind probably for a long time thereafter, was not economic recovery but structural reform. In the last analysis, reform was the New Deal's lasting legacy.

The pattern of economic reforms that the New Deal wove arose out of concrete historical circumstances. It also had a more coherent intellectual underpinning than is customarily recognized. Its cardinal aim was not to destroy capitalism but to devolatilize it, and at the same time to distribute its benefits more evenly. New Deal regulatory initiatives were precipitated from decades of anxiety about overcapacity and cutthroat competition, the very issues that had so disrupted the first great national industry, the railroads, in the nineteenth century and led to the creation of the country's first regulatory commission, the Interstate Commerce Commission (ICC), in 1887. Against that background, the Depression appeared to signal the final, inevitable collapse of an economy that had been beset for at least fifty years by overproduction and an excess of competition. The regulatory regime that the New Deal put in

12. Temin's remark is in Gary M. Walton, ed., *Regulatory Change in an Atmosphere of Crisis: Current Implications of the Roosevelt Years* (New York: Academic, 1979), 58.

place seemed, therefore, but a logical extension of the kind of competition-controlling remedies that the ICC had first applied to the railroads half a century earlier and a fitting climax to five decades of sometimes wild economic turbulence.

Those views found their most systematic formulation in Franklin Roosevelt's 1932 campaign address at San Francisco's Commonwealth Club. As much as any single document can, that speech served as a charter for the New Deal's economic program:

> The history of the last half century is in large measure a history of a group of financial Titans. . . .
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> As long as we had free land; as long as population was growing by leaps and bounds; as long as our industrial plants were insufficient to supply our own needs, society chose to give the ambitious man free play and unlimited reward provided only that he produced the economic plant so much desired. During this period of expansion, there was equal opportunity for all and the business of government was not to interfere but to assist in the development of industry.
>
> [But now] our industrial plant is built; the problem just now is whether under existing conditions it is not overbuilt. Our last frontier has long since been reached, and there is practically no more free land. . . . We are now providing a drab living for our own people. . . .
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> Clearly, all this calls for a re-appraisal of values. A mere builder of more industrial plants, a creator of more railroad systems, an organizer of more corporations, is as likely to be a danger as a help. The day of the great promoter or the financial Titan, to whom we granted everything if only he would build, or develop, is over. Our task now is not discovery, or exploitation of natural resources, or necessarily producing more goods. It is the soberer, less dramatic business of administering resources and plants already in hand, of seeking to reestablish foreign markets for our surplus production, of meeting the problem of underconsumption, of adjusting production to consumption, of distributing wealth and products more equitably, of adapting existing economic organizations to the service of the people. The day of enlightened administration has come. . . . As I see it, the task of government in its relation to business is to assist the development of . . . an economic constitutional order."[13]

The National Recovery Administration, of course, with its measures to stabilize production and limit price and wage competition, was the classic institutional expression of that philosophy. But even after the

13. *PPA* (1928–32), 742–56.

NRA's demise in 1935, the thinking that had shaped it continued to inform New Deal efforts to erect a new "economic constitutional order."

That thinking rested on three premises, two of them explicit, the other usually implicit. The first was the notion, so vividly and repeatedly evident in Roosevelt's Commonwealth Club Address, that the era of economic growth had ended. With his references to the closing of the frontier, Roosevelt, echoing Frederick Jackson Turner's celebrated thesis about the 1890s, suggested that the Depression did not mark a transient crisis but heralded instead the death of an era and the birth of a new historical epoch. Many other New Dealers, from Rexford Tugwell to the young Keynesians who rose to prominence in the second Roosevelt administration, shared this view. It deeply colored their thought right down to the end of the Depression decade. "The economic crisis facing America is not a temporary one," the economist Lauchlin Currie wrote to his boss, Marriner Eccles, in 1939. "The violence of the depression following 1929," Currie continued, "obscured for some time the fact that a profound change of a chronic or secular nature had occurred."[14] That change, Currie concluded, was the emergence of a "mature" economy, one whose capacity for growth was largely exhausted. The best that could be hoped for, therefore, was to restore the gross levels of production of the late 1920s and to effect a more equitable distribution of consuming power so as to sustain those levels indefinitely. Roosevelt himself said consistently that his "goal" was to raise national income to "ninety or one hundred" billion dollars. "When, the Lord only knows," he remarked to reporters as late as October 1937, "but that is a perfectly sound goal."[15] Measured against a national income of nearly $87 billion in 1929, it was also a perfectly modest goal, a goal inspired by visions of economic restoration, not economic expansion.

The second premise that informed New Deal policy was closely related to the first and was also evident in Roosevelt's Commonwealth Club address. It was the idea that the private sector, left to its own devices, would never again be capable of generating sufficient investment and employment to sustain even a 1920s-level economy. That premise was the starting point for Harry Hopkins's Works Progress Administration. Both he and Roosevelt presumed that WPA would be a

14. Currie quoted in Alan Brinkley, *The End of Reform: New Deal Liberalism in Recession and War* (New York: Knopf, 1995), 122.

15. *PPA* (1937), 476; see also Roosevelt's annual message to Congress of January 3, 1938, *PPA* (1938), 3.

permanently necessary government employment program. ("The time . . . when industry and business can absorb all able-bodied workers," said Hopkins in 1936, "seems to grow more distant with improvements in management and technology.")[16] The same assumption about the long-term structural inadequacies of the private sector in "mature" economies formed much of the intellectual core of Keynesian analysis. Even before Keynes gave the idea full articulation, this motif ran like a bright thread through the writings of the professional practitioners of the dismal science in the 1930s. Alvin Hansen, a Harvard economist destined to become America's leading Keynesian, gave forceful expression to this notion in 1938 in *Full Employment or Stagnation?*, a book that helped to popularize the concept of "secular stagnation" while also arguing that government spending was indispensable to make up for the permanent deficiencies of private capital.[17]

The third premise that molded the economic thinking and policies of the New Deal was the assumption, less consciously held than the other two but powerfully determinative nonetheless, that the United States was an economically self-sufficient nation. That concept of economic isolationism had underlain Roosevelt's frank declaration in his first inaugural address that "our international trade relations . . . are in point of time and necessity secondary only to the establishment of a sound national economy." It had formed the basis of his inflationary schemes of 1933 and 1934. It formed the filament on which a series of New Deal measures, from crop supports to minimum wage and price-fixing legislation, was strung. When Roosevelt spoke of "balance" between American industry and agriculture, or when he posited the requirement "that the income of our working population actually expands sufficiently to create markets to absorb that increased production," he was clearly envisioning an America for which foreign markets, not to mention foreign competitors, did not exist.[18]

FROM THOSE INTELLECTUAL BUILDING BLOCKS, composed of a theory of history, a conception of the nature of modern economies, and an appraisal of America's unique position in the world, the New

16. Harry Hopkins, *Spending to Save* (New York: Norton, 1936), 180–81.
17. Alvin H. Hansen, *Full Employment or Stagnation?* (New York: Norton, 1938). Witnessing the economic impact of World War II, Hansen later revised his views on secular stagnation. "All of us had our sights too low," he wrote in 1944. See Alvin H. Hansen, "Planning Full Employment," *Nation*, October 21, 1944, 492.
18. *PPA* (1933), 14, (1937), 496.

Deal erected an institutional scaffolding designed to provide unprece dented stability and predictability for the American economy. In time that edifice would serve as the latticework on which the postwar econ omy grew like kudzu, the "mile-a-minute vine" that carpets much of th South. To be sure, the unparalleled economic vitality of the post-194 decades was attributable to many factors, not least the gusher of defici spending triggered by World War II, as well as the long exemption fron foreign competition that the results of the war conferred on the Unitec States. But the elements of financial reliability, modulated competitior in commodity, transportation, communication, retail, and labor markets well-ordered relations between management and labor, and governmen support of at least minimal levels of aggregate demand—development that owed much to the New Deal—must surely figure largely in any comprehensive explanation of the performance of the American econ omy in the postwar quarter century.

Yet economic growth as a later generation would know it formed little part of the New Deal's ambition, even after FDR's timid, attenuated acceptance of Keynesian deficits in 1938. Roosevelt remained reluctant to the end of the 1930s to engage in the scale of compensatory spending adequate to restore the economy to pre-Depression levels, let alone expand it. Nor would he relax his attacks on business sufficiently to encourage capital to take full advantage of the stabilizing elements his own government was putting in place. Ironically, he succeeded in building structures of stability while maintaining throughout the 1930s, so far as businessmen were concerned, an atmosphere of uncertainty. Capital can live with restrictions, but it is terrorized by insecurity. "Business is now hesitant about making long term plans," the head of the New York Federal Reserve Board wrote to Marriner Eccles in 1937, "partly because it feels it does not know what the rules of the game are going to be."[19] That sentiment was widely shared in the business community. It was not so much the regulations that the New Deal imposed that intimidated businessmen in the 1930s; it was the fear of what new and unknown provocations Roosevelt might yet unleash. When at last Roosevelt declared the New Deal's reform phase at an end, and when the war compelled government spending on an unexampled scale, capital was

19. Quoted in Richard Polenberg, "The Decline of the New Deal, 1937–1940," in John Braeman et al., eds., *The New Deal: The National Level* (Columbus: Ohio State University Press, 1975), 255.

unshackled, and the economy energized, to a degree that he and other New Dealers could scarcely have imagined in the Depression decade. And ever after, Americans assumed that the federal government had not merely a role, but a major responsibility, in ensuring the health of the economy and the welfare of citizens. That simple but momentous shift in perception was the newest thing in all the New Deal, and the most consequential too.

HUMANKIND, OF COURSE, does not live by bread alone. Any assessment of what the New Deal did would be incomplete if it rested with an appraisal of New Deal economic policies and failed to acknowledge the remarkable array of social innovations nourished by Roosevelt's expansive temperament.

The world is not a finished place, the philosopher William James once said, nor ever will be. Neither was the New Deal a finished thing, though in later years some scholars lamented its incompleteness, its alleged political timidity, and its supposedly premature demise.[20] But what needs emphasis, in the final accounting, is not what the New Deal failed to do but how it managed to do so much in the uniquely malleable moment of the mid-1930s. That brief span of years, it is now clear, constituted one of only a handful of episodes in American history when substantial and lasting social change has occurred—when the country was, in measurable degree, remade. The American political system, after all, was purpose-built in the eighteenth century to prevent its easy manipulation from the national capital, to bind governments down from mischief, as Jefferson said, by the chains of the Constitution, especially by the notoriously constraining system of checks and balances. It is hardly surprising, therefore, that political stasis defines the "normal" American condition. Against that backdrop, what stands out about the New Deal are not its limitations and its timidity but the boldness of its vision and the consequent sweep of its ultimate achievement.

For all his alleged inscrutability, Franklin Roosevelt's social vision was

20. Works that generally share a critical posture toward the New Deal include Barton J. Bernstein, "The Conservative Achievements of Liberal Reform," in Bernstein, ed., *Towards a New Past* (New York: Pantheon, 1968); Howard Zinn, *New Deal Thought* (Indianapolis: Bobbs-Merrill 1966); Paul Conkin, *The New Deal*, 3d ed. (Arlington Heights, Ill.: Harlan Davidson, 1992); Brinkley, *End of Reform*; and Michael Sandel, *Democracy's Discontent: America in Search of a Public Philosophy* (Cambridge: Belknap Press of Harvard University Press, 1996).

clear enough. "We are going to make a country," he once said to Frances Perkins, "in which no one is left out."[21] In that unadorned sentence Roosevelt spoke volumes about the New Deal's lasting historical meaning. Like his rambling, comfortable, and unpretentious old home on the bluff above the Hudson River, Roosevelt's New Deal was a welcoming mansion of many rooms, a place where millions of his fellow citizens could find at last a measure of the security that the patrician Roosevelts enjoyed as their birthright.

Perhaps the New Deal's greatest achievement was its accommodation of the maturing immigrant communities that had milled uneasily on the margins of American society for a generation and more before the 1930s. In bringing them into the Democratic Party and closer to the mainstream of national life, the New Deal, even without fully intending to do so, also made room for an almost wholly new institution, the industrial union. To tens of millions of rural Americans, the New Deal offered the modern comforts of electricity, schools, and roads, as well as unaccustomed financial stability. To the elderly and the unemployed it extended the promise of income security, and the salvaged dignity that went with it.

To black Americans the New Deal offered jobs with the CCC, WPA, and PWA and, perhaps as important, the compliment of respect from at least some federal officials. The time had not come for direct federal action to challenge Jim Crow and put right at last the crimes of slavery and discrimination, but more than a few New Dealers made clear where their sympathies lay and quietly prepared for a better future. Urged on by Eleanor Roosevelt, the president brought African-Americans into the government in small but unprecedented numbers. By the mid-1930s they gathered periodically as an informal "black cabinet," guided often by the redoubtable Mary McLeod Bethune. Roosevelt also appointed the first black federal judge, William Hastie. Several New Deal Departments and agencies, including especially Ickes's Interior Department and Aubrey Williams's National Youth Administration, placed advisers for "Negro affairs" on their staffs.

In the yeasty atmosphere of Roosevelt's New Deal, scores of social experiments flourished. Not all of them were successful, not all of them destined to last, but all shared the common purpose of building a country from whose basic benefits and privileges no one was excluded. The

21. Frances Perkins, *The Roosevelt I Knew* (New York: Viking, 1946), 113.

Resettlement Administration laid out model communities for displaced farmers and refugees from the shattered industrial cities, though only a handful of those social experiments survived, and they soon lost their distinctive, utopian character. The Farm Security Administration maintained migrant labor camps that sheltered thousands of families like John Steinbeck's Joads. The Tennessee Valley Authority brought electricity, and with it industry, to the chronically depressed upper South. The Bonneville Power Authority made a start on doing the same for the Columbia River Basin in the long-isolated Pacific Northwest. The New Deal also extended the hand of recognition to Native Americans. The Indian Reorganization Act of 1934—the so-called Indian New Deal—ended the half-century-old policy of forced assimilation and alienation of tribal lands and encouraged tribes to establish their own self-governing bodies and to preserve their ancestral traditions. Though some Indians denounced this policy as a "back-to-the-blanket" measure that sought to make museum pieces out of Native Americans, the act accurately reflected the New Deal's consistently inclusionary ethos.

The New Deal also succored the indigent and patronized the arts. It built roads and bridges and hospitals. It even sought a kind of security for the land itself, adding some twelve million acres of national parklands, including Olympic National Park in Washington State, Isle Royal in Lake Superior, the Everglades in Florida, and King's Canyon in California. It planted trees and fought erosion. It erected mammoth dams—Grand Coulee and Bonneville on the Columbia, Shasta on the Sacramento, Fort Peck on the Missouri—that were river-tamers and nature-busters, to be sure, but jobmakers and region-builders, too.

Above all, the New Deal gave to countless Americans who had never had much of it a sense of security, and with it a sense of having a stake in their country. And it did it all without shredding the American Constitution or sundering the American people. At a time when despair and alienation were prostrating other peoples under the heel of dictatorship, that was no small accomplishment.

The columnist Dorothy Thompson summed up Franklin Roosevelt's achievements at the end of the Depression decade, in 1940:

> We have behind us eight terrible years of a crisis we have shared with all countries. Here we are, and our basic institutions are still intact, our people relatively prosperous, and most important of all, our society relatively affectionate. No rift has made an unbridgeable schism between us. The working classes are not clamoring for [Communist Party

> boss] Mr. Browder and the industrialists are not demanding a Man on Horseback. No country in the world is so well off.[22]

In the last analysis, Franklin Roosevelt faithfully discharged his duties, in John Maynard Keynes's words of 1933, as "the trustee for those in every country" who believed in social peace and in democracy. He did mend the evils of the Depression by reasoned experiment within the framework of the existing social system. He did prevent a naked confrontation between orthodoxy and revolution. The priceless value of that achievement, surely as much as the columns of ciphers that recorded national income and production, must be reckoned in any final accounting of what the New Deal did.

22. *New York Herald Tribune*, October 9, 1940, rpt. in Arthur M. Schlesinger Jr., *The History of American Presidential Elections*, 1789–1968 (New York: Chelsea House, 1971), 4:2981–93.