



# Book The New Deal

## A Modern History

Michael Hiltzik  
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## Recommendation

You may think of Franklin Roosevelt as a sepia-toned hero who smoothly guided the United States out of the Depression. As this captivating history makes clear, that is partly true – but not entirely. Roosevelt was a hero in some ways, but his path was decidedly messy. Pulitzer Prize-winning journalist Michael Hiltzik guides readers through the fits and starts of “New Deal” policies. It turns out that New Deal program ideas could spring from anywhere, whether Roosevelt’s avid imagination or the writings of an obscure economist. A few New Deal programs were miserable failures. And while FDR’s landslide victories paint a distant, historic picture of an overwhelmingly popular president, Hiltzik points out that Roosevelt had to overcome plenty of opposition to enact his policies. *BooksInShort* recommends this revealing history to readers seeking a fresh look at a seminal chapter – and a seminal man – in American politics and economics.

## Take-Aways

- Elected in 1932, Franklin D. Roosevelt pledged to reverse the US’s laissez-faire approach to business.
- His first act was a bank holiday that stabilized the financial system and ended bank runs. He then instituted a series of “New Deal” programs.
- Social Security was the New Deal’s most enduring and successful venture.
- The introduction of federal deposit insurance caused bank failures to all but disappear.
- The Civilian Conservation Corps put 275,000 young men to work in forests and parks.
- The Tennessee Valley Authority brought electricity to rural areas.
- Not all New Deal programs succeeded; efforts to control agricultural surpluses and to mandate maximum hours and minimum wages flopped.
- Roosevelt’s attempt to boost commodity prices by setting the price of gold also failed.
- His programs were dictated not by ideology but by pragmatism and a willingness to try strange strategies.
- New Deal policies drew backlash from populists, progressives and conservatives, but FDR was re-elected in 1936 in a landslide.

## Summary

### Roosevelt Charts a New Path

In 1932, with the US economy in shambles, Franklin D. Roosevelt won the race for the Democratic Party’s nomination, making him hot favorite for the presidency. Republicans had controlled the White House for 12 years, overseeing a giddy boom and a calamitous crash. President Herbert Hoover seemed out of touch and unable to deal with the crisis, although the occasional signs of recovery in 1931 and 1932 improved his chances. Stocks spiked and fell again; bank failures ebbed. Hoover believed he had led the nation through the worst. But his confidence proved misplaced, and signs of life soon faded. Roosevelt won big in 1932, but he came to regret promising to cut federal spending by 25%.

“The presidential election campaign of 1932 had resembled a sporting contest between adversaries playing toward a preordained conclusion.”

Roosevelt pledged to reverse Hoover’s laissez-faire approach. During his 1933 inaugural speech, Roosevelt delivered his famous line, “The only thing we have to fear is fear itself.” Not everyone was taken with the speech. Political essayist Edmund Wilson found it full of “vagueness” and “abstractions.” Lawyer Thomas Corcoran judged it “an empty collection of platitudes.” Yet FDR chose Corcoran as a top adviser, eventually nicknaming him “Tommy the Cork.”

“Roosevelt’s grip on the popular imagination began with his first campaign for the presidency and steadily intensified through his term in office.”

Moving quickly as president, Roosevelt declared an emergency four-day bank holiday starting March 6, to stop bank runs by forbidding depositors to withdraw cash. With nearly a quarter of US banks insolvent, runs were common. The first day, banks could make change, cash government checks and give depositors access to safe-deposit boxes. On March 7, customers could withdraw cash for food and medicine. For some, the short bank holiday was just an inconvenience. But in Detroit, where banks had been closed for weeks, economic activity ground to a paralyzing halt.

“Roosevelt’s flawless delivery, his pausing for dramatic effect before the words ‘fear itself,’ invested the phrase with his own confidence and assurance.”

With currency in short supply, bartering became popular. Some employers began to issue scrip. The *Chicago Tribune* paid employees with currency featuring the face of Theodore Roosevelt, FDR’s distant Republican cousin. Popular scrip could have undermined the Federal Reserve’s power, so the Treasury Secretary quietly ordered the printing of \$200 million of crisis currency. Thanks to Roosevelt’s first “Fireside Chat” on March 12, the Treasury never had to inject that cash into the economy. FDR assured Americans that the banks allowed to reopen would be sound. He implored them not to hoard cash and blamed the banking crisis on a few reckless actors, not the entire system. The speech worked. As banks reopened in stages, people lined up not to withdraw cash but to deposit their hoarded gold and currency, totaling \$1.2 billion in deposits by the end of March. Later in 1933, the Glass-Steagall Act created the Federal Deposit Insurance Corporation. Insuring deposits had a near-miraculous result. Some 4,000 banks failed in 1933. The FDIC took effect on Jan. 1, 1934; that year, only 61 banks failed.

## New Deal Successes

After stabilizing banking, Roosevelt moved to other parts of the economy. The Economy Act, passed in March 1934, let him cut government wages 15% and slash veterans’ benefits. As complaints rolled in, FDR decided he had made a mistake. The episode marked an early end to his time as a fiscal conservative. From then on, he was a free spender. During his first “Hundred Days” in office, he called for legalizing 3.2%-alcohol wine and beer, thus ending Prohibition. Then he moved on to the Civilian Conservation Corps (CCC), designed to put young men to work in forests and national parks for \$1 a day, plus food and lodging. Despite Cabinet objections, the CCC was recruiting workers by April. The first recruit, age 19, came from a family of 13 kids. Within months, 1,300 camps housed 275,000 workers. In its decade of existence, the CCC built 125,000 miles of road, nearly 47,000 bridges and more than 300,000 dams. Thanks to regular meals, its workers gained as much as 30 pounds each despite their long days of labor.

“To restore confidence, it was essential to impute the crisis to a discrete group of miscreants, rather than to fundamental flaws in the system.”

Roosevelt also turned his attention to the nation’s housing crisis. Home values shot up in the 1920s but plummeted during the Depression. Borrowers typically took out short-term, interest-only, three-to-five-year mortgages. With unemployment rampant and prices falling, foreclosures soared. Typical home prices fell from \$5,000 in 1926 to \$3,300 in 1932, creating pressures that are all too familiar now. To stabilize the market, Roosevelt set up the Home Owners’ Loan Corporation to convert banks’ bad mortgages to 15-year amortizing mortgages with interest rates capped at 5%. The measure was a success, but Roosevelt soon lost interest in the housing market.

“For many boys [the CCC offered] more abundant fare than they had ever seen, a full stomach being as novel an experience as the indoor plumbing and electricity of the CCC barracks.”

Another victorious New Deal program focused on bringing electricity to some of the nation’s poorest areas. In the Tennessee Valley, for instance, fewer than 10% of residents had access to power. Per capita income in the region was \$163, well below the national average. Much of the Tennessee Valley had no power lines. Residents in electrified areas paid steep rates to private power firms. Despite opposition from private utility executives such as Wendell Wilkie, the federal government’s Tennessee Valley Authority sought to break private power companies’ monopolies. The gambit worked. Utilities cut rates in Memphis and Chattanooga, and voters in Knoxville approved a \$3.2 million bond issue to build power lines to connect with the TVA’s grid. The TVA built or bought 29 dams, one of the most lasting New Deal accomplishments.

“The entire Tennessee Valley, transformed by this vast program, would be the grandest tangible legacy of the New Deal.”

Roosevelt tried to rein in the securities industry, where loose regulation and opaque disclosure left investors at the mercy of shady operators. The Securities Act of 1933 was designed to address stock promoters’ unscrupulous practices by introducing new disclosure and transparency rules. Unfortunately, the Act assigned regulatory duties to an overwhelmed, unprepared bureaucracy. The Securities Exchange Act of 1934 added new rules so that executives who cooked the books would face criminal prosecution. FDR named former Wall Street profiteer Joseph Kennedy to head the new Securities and Exchange Commission (SEC); he proved to be an effective regulator.

## Amid the Successes, Several Missteps

While the SEC, the CCC, the TVA and the Home Owners’ Loan Corporation were big successes, another Hundred Days initiative – the Agricultural Adjustment Act – proved unseemly. To stem mounting farm failures and foreclosures, the AAA addressed plummeting prices for hogs and cotton by paying farmers to slaughter piglets and plow under 3.5 million bales of cotton. Farmers grasped at the \$120-million payment for their cotton, but the spectacle left many uncomfortable.

“The gold scheme was not Roosevelt’s worst miscalculation in office, but for the business community it was the first.”

The next initiative was also flawed. The National Industrial Recovery Act (NIRA) required employers to limit workers’ weekly hours, assuming that employers would then hire more workers. The NIRA also sought to set minimum wages and to reduce competition in some industries. For instance, the government told textile mills, where 55-hour weeks were common, to limit workers to 40 hours a week. The National Recovery Administration awarded “Blue Eagle” awards to employers who abided by NIRA’s rules, though not everyone jumped on board. In the end, NIRA’s minimum wages were too low to matter much, and the entire effort did little to improve the plight of workers.

“The short-term, permanently renewing loan that kept the borrower at the mercy of his lender was relegated to history’s dustbin.”

Roosevelt moved on to another odd episode in which he personally manipulated the price of gold. The program was based on the theories of Cornell University economist George Frederick Warren, who thought that boosting the price of gold could increase overall commodity prices. Most economists considered the conclusion ridiculous, but FDR decided to try it. Starting in October 1933, Roosevelt and two top advisers set the price of gold each morning. The President attempted to be unpredictable, so that speculators couldn't divine a pricing pattern. One morning, Roosevelt decided to change the price by 21 cents, since 21 was "a lucky number." When it rapidly became clear that presidential manipulation of gold prices did not boost commodity prices, Roosevelt dropped the program nearly as quickly as he had started it. But the misguided scheme turned the business community into his unrelenting foe, leaving ill will that fostered constant opposition to subsequent New Deal initiatives.

“The Midwest and South produced a truculent populism closely identified with two masters of radio oratory, the Reverend Charles E. Coughlin and Huey Long.”

Business leaders weren't the only source of dissent. Members of the administration also disagreed with each other. Tension grew between Harry Hopkins, head of the Civil Works Administration (CWA) and Works Progress Administration (WPA), and Harold Ickes, who ran the Public Works Administration (PWA). Hopkins believed in quickly pushing money out to those in need, but Ickes wanted to drive a hard bargain with contractors. Believing that paychecks boosted morale, Hopkins eagerly doled out money for many projects. CWA installed water and sewer service in thousands of schools and built 150,000 public bathrooms in destitute rural areas. WPA put more than four million people on government payrolls, but Republican critics saw its projects as wasteful, coining the word "boondoggle" to describe its largesse. The conservative *Chicago Tribune* slammed Hopkins's "ability to waste more money in quicker time on more absurd undertakings than any other mischievous wit in Washington." Criticism didn't deter Hopkins, although his programs remained under political attack.

### A Populist Backlash

While people now remember Roosevelt as a populist, two influential populists of his day made a career of lambasting him. The Rev. Charles E. Coughlin and Sen. Huey Long used their radio shows to criticize the New Deal. Coughlin served up a steady stream of nonspecific discontent. He criticized everyone from Wall Street titans to Federal Reserve currency manipulators. Long promoted a more specific agenda: He proposed capping family wealth at \$5 million and income at \$1 million a year, and he recommended taxing and redistributing any other earnings so every US family would receive at least \$2,000 a year. Long's "Share Our Wealth" program drew supporters nationally. Roosevelt ignored both men, but they gained a wide enough following that administration insider Hugh Johnson felt compelled to decry them publicly for pandering to "the emotional fringe." The criticism backfired, drawing more attention to Long, who was killed in 1935, and to Coughlin, who stepped up his attacks on the New Deal, but his rhetoric soon devolved into anti-Semitic, pro-Hitler ravings, and his church forced him off the air in 1942.

### Roosevelt's "Haphazard" Accomplishments

Roosevelt's critics gained traction in part because he achieved so much in his first term. His grandest accomplishment was Social Security, a pension plan he first began to push in June 1934. As the Depression descended, men older than 65 faced a dire situation, including 50% or more unemployment in their age group. Many had seen their life savings evaporate in the previous years' banking collapse. The patchwork of state pension plans did little to help. Many state plans went bust, and the average monthly payment from the remaining plans was a paltry \$14. As New York's governor, Roosevelt had activated a comparatively generous state pension plan, and he wanted such a program nationwide. But the hodgepodge of state plans offered no ready template.

“Technically speaking, the Depression may have run its course by the end of 1933, but conditions at ground level remained beyond dismal.”

A committee working on a federal pension plan wrestled with many issues, such as whether to base benefits on earnings or to give everyone the same amount, and how to help the "near retired," ages 45 to 65. The committee settled on the now-familiar sliding scale of benefits based on wages. Congress mandated investing the pension funds in US Treasury securities, not stocks. When FDR introduced the Economic Security Act in 1935, Sen. Thomas P. Gore of Oklahoma saw it as a socialist-style redistribution of wealth. Despite such opposition, Congress enacted Social Security, still "the single most successful government program in American history."

“The man on the street had yet to see the return of a robust job market, farm prices were still depressed and economic activity was still heavily dependent on relief programs.”

Roosevelt continued crusading, proposing the 1935 Public Utility Holding Company Act to end abuses in the electrical industry. His first-term New Deal proposals drew a great backlash, and not just from Coughlin and Long. Progressives thought Roosevelt squandered an opportunity to remake Wall Street. Conservatives said the New Deal introduced too much new regulation and spent far too much. While Roosevelt heard the criticism, it scarcely affected his political popularity. His landslide re-election in 1936 put the citizenry's stamp of approval on his New Deal programs. Historians often portray Roosevelt as a canny politician and principled progressive who approached the New Deal with high-minded values and an overarching ideological vision. In truth, he improvised, attacking problems however he could. In some cases, he failed. One administration insider described even his best policies as "a series of haphazard accidents." Another suggested that to call the New Deal an organized program would be like seeing the chaos of a boy's bedroom as the work of an interior decorator.

### About the Author

Los Angeles Times journalist **Michael Hiltzik** won the 1999 Pulitzer Prize for stories uncovering corruption in the entertainment industry. He is the author of *Colossus: Hoover Dam and the Making of the American Century*.

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