

**THE NEW DEAL: ACCOMPLISHMENTS AND FAILURES (Modified) Allan M. Winkler Distinguished Professor of History Miami University Oxford, Ohio-
Testimony before the U.S. Senate Committee on Banking, Housing, and
Urban Affairs March 31, 2009**

Why, then did the New Deal fail to achieve economic recovery? The answer rests with the theoretical speculations of English economist John Maynard Keynes. In 1936, he published his powerfully important book *The General Theory of Employment, Interest and Money*, but he had been lecturing about the concepts for several years to his Cambridge University students. Basically, Keynes argued that depressions would not disappear of their own accord. It was rather necessary to take aggressive action to jumpstart the economy. Ideally, such action should come from the private sector. But if such a response was not forthcoming, the government could act instead. It could spend massive amounts of money on public works or other projects, or cut taxes, or both. What was necessary, in Keynes's phrase, was deliberate, sustained countercyclical spending.

Furthermore, the New Deal often worked in counterproductive ways, at least economically. Whereas Keynes demanded what we would today call a major stimulus package, and while the New Deal did spend more than ever before, it also embarked on contradictory initiatives. For example, the Agricultural Adjustment Administration spent large amounts of money to take land out of circulation, to cut down on production and thereby raise prices. But it diminished the effect of that spending by paying for it with a sizeable processing tax. Likewise, Social Security, which aimed to plow a huge amount of money into pensions, was not slated to make payments until 1942, but began taking money out of circulation through a withholding tax long before then.

The New Deal also alienated businessmen, something Keynes counseled against. "Businessmen have a different sense of delusions from politicians," he once said. "You could do anything you liked with them, if you would treat them (even the big ones) not as wolves and tigers but as domestic animals by nature,

even though they have been badly brought up and not trained as you would wish.” The NRA alienated business, and never did encourage private expansion or investment. It may have halted the deflationary spiral, but it failed to create new jobs. And it contributed to a measure of ill will. As Roosevelt got frustrated, his rhetoric marginalized business interests. Speaking of business interests in the reelection campaign of 1936, he proclaimed, “They are unanimous in their *hate* for *me* – and I welcome their *hatred*.” That may have helped politically, but it hurt economically.

Fiscal policy, in short, along the lines Keynes counseled, did not work because it was never really tried. The unemployment rate never dropped below 14 percent, and for the entire decade of the 1930s, it averaged 17 percent.

Slowly, however, the New Deal learned fiscal lessons. In 1937, assuming that the economy was improving and could manage without assistance, Roosevelt slashed half of all WPA jobs and cut the allocation to less than a third of what it had been. At the same time, workers were just beginning to contribute to Social Security, though payouts were still in the future. Industrial production fell precipitously. The stock market plunged. Unemployment soared back to 19 percent. A quick restoration of spending brought matters under control.

But spending for World War II really vindicated Keynes and his theories. With the onset of the war, even before American entrance, defense spending quadrupled, and unemployment vanished virtually overnight. The lesson was clear. There was no need to suffer the ravages of depression any longer. We now had the tools to help the economy revive.

Some parts of the New Deal worked; some did not. The New Deal restored a sense of security as it put people back to work. It created the framework for a regulatory state that could protect the interests of all Americans, rich and poor, and thereby help the business system work in more productive ways. It rebuilt the infrastructure of the United States, providing a network of schools, hospitals, and roads that served us well for the next 70 years.

Great Society Speech, Lyndon B. Johnson, 1964 (Modified)

I have come today from the turmoil of your Capital to the tranquility (peace) of your campus to speak about the future of your country. . .

The Great Society rests on abundance and liberty for all. It demands an end to poverty and racial injustice, to which we are totally committed in our time. But that is just the beginning. . .

It is harder and harder to live the good life in American cities today. There is not enough housing for our people or transportation for our traffic. . . . Our society will never be great until our cities are great. . .

A second place where we begin to build the Great Society is in our countryside. We have always prided ourselves on being not only America the strong and America the free, but America the beautiful. Today that beauty is in danger. The water we drink, the food we eat, the very air that we breathe, are threatened with pollution. Our parks are overcrowded, our seashores overburdened. Green fields and dense forests are disappearing. . .

A third place to build the Great Society is in the classrooms of America. There your children's lives will be shaped. Our society will not be great until every young mind is set free to scan the farthest reaches of thought and imagination. We are still far from that goal. . . Poverty must not be a bar to learning, and learning must offer an escape from poverty. . .

For better or for worse, your generation has been appointed by history to deal with those problems and to lead America toward a new age. You have the chance never before afforded to any people in any age. You can help build a society where the demands of morality, and the needs of the spirit, can be realized in the life of the Nation.

So, will you join in the battle to give every citizen the full equality which God enjoins and the law requires, whatever his belief, or race, or the color of his skin?

Will you join in the battle to give every citizen an escape from the crushing weight of poverty?

Will you join in the battle to build the Great Society, to prove that our material progress is only the foundation on which we will build a richer life of mind and spirit?

Source: The speech above was delivered by President Johnson as a commencement (graduation) speech at the University of Michigan on May 22, 1964.

Major Great Society Programs

War on Poverty: forty programs that were intended to eliminate poverty by improving living conditions and enabling people to lift themselves out of the cycle of poverty.

Education: sixty separate bills that provided for new and better-equipped classrooms, minority scholarships, and low-interest student loans.

Medicare & Medicaid: guaranteed health care to every American over sixty-five and to low-income families.

The Environment: introduced measures to protect clean air and water.

National Endowment for the Arts and the Humanities: government funding for artists, writers and performers.

Head Start: program for four- and five-year-old children from low-income families.

Sampling of the laws passed during the Johnson administration to promote the Great Society.

PREVENTION & ABATEMENT OF AIR
POLLUTION
(THE CLEAN AIR ACT)
DEC. 17, 1963

VOCATIONAL EDUCATION ACT
DEC. 18, 1963

CIVIL RIGHTS ACT OF 1964
JULY 2, 1964

URBAN MASS TRANSPORTATION
JULY 9, 1964

FEDERAL-AID HIGHWAY ACT OF 1964
AUG. 13, 1964

CRIMINAL JUSTICE ACT OF 1964
AUG. 20, 1964

FOOD STAMP ACT OF 1964
AUG. 31, 1964

NATIONAL ARTS CULTURAL DEVELOPMENT
ACT OF 1964
SEPT. 3, 1964

SOCIAL SECURITY AMENDMENTS
JULY 30, 1965

VOTING RIGHTS ACT OF 1965
AUG. 6, 1965

HOUSING AND URBAN DEVELOPMENT ACT
AUG. 10, 1965

PUBLIC WORKS AND ECONOMIC
DEVELOPMENT ACT
AUG. 26, 1965

DEPARTMENT OF HOUSING AND URBAN
DEVELOPMENT ACT
SEPT. 9, 1965

NATIONAL FOUNDATION ON THE ARTS &
THE HUMANITIES ACT
SEPT. 29, 1965

HIGHER EDUCATION ACT OF 1965
NOV. 8, 1965

CHILD NUTRITION ACT OF 1966
OCT. 11, 1966

CHILD PROTECTION ACT OF 1966
NOV. 3, 1966

NATIONAL SCHOOL LUNCH ACT
MAY 8, 1968

Source: <http://www.colorado.edu/AmStudies/lewis/2010/gresoc.htm>

PRO: What Was Really Great About The Great Society (Modified)

By Joseph A. Califano Jr.

The Washington Monthly (online), October 1999

If there is a prize for the political scam of the 20th century, it should go to the conservatives for [claiming that the] Great Society programs of the 1960s were a misguided and failed social experiment that wasted taxpayers' money.

Nothing could be further from the truth. In fact, from 1963 when Lyndon Johnson took office until 1970 as the impact of his Great Society programs were felt, the portion of Americans living below the poverty line dropped from 22.2 percent to 12.6 percent, the most dramatic decline over such a brief period in this century. . . If the Great Society had not achieved that dramatic reduction in poverty, and the nation had not maintained it, 24 million more Americans would today be living below the poverty level. . .

Since 1965 the federal government has provided more than a quarter of a trillion dollars in 86 million college loans to 29 million students, and more than \$14 billion in work-study awards to 6 million students. Today nearly 60 percent of full-time undergraduate students receive federal financial aid under Great Society programs. . .

Head Start has served more than 16 million preschoolers in just about every city and county in the nation and today serves 800,000 children a year. . . . Lyndon Johnson knew that the rich had kindergartens and nursery schools; and he asked, why not the same benefits for the poor?

Is revolution too strong a word? Since 1965, 79 million Americans have signed up for Medicare. In 1966, 19 million were enrolled; in 1998, 39 million. Since 1966, Medicaid has served more than 200 million needy Americans. In 1967, it served 10 million poor citizens; in 1997, 39 million. . . Closely related to these health programs were efforts to reduce malnutrition and hunger. Today, the Great Society's food stamp program helps feed more than 20 million men, women, and children in more than 8 million households. Since it was launched in 1967, the school breakfast program has provided a daily breakfast to nearly 100 million schoolchildren.

The Voting Rights Act of 1965. . . opened the way for black Americans to strengthen their voice at every level of government. In 1964 there were 79 black elected officials in the South and 300 in the entire nation. By 1998, there were some 9,000 elected black officials across the nation, including 6,000 in the South. . . .

Source: Joseph Califano, Jr., became a special assistant to President Johnson in July 1965, and served as President Johnson's senior domestic policy aide for the remainder of Johnson's term.

CON: War on Poverty Revisited (Modified)

By Thomas Sowell

Capitalism Magazine (online), August 17, 2004

The War on Poverty represented the crowning triumph of the liberal vision of society -- and of government programs as the solution to social problems. . .

In the liberal vision, slums bred crime. But brand-new government housing projects almost immediately became new centers of crime and quickly degenerated (declined) into new slums. . .

Rates of teenage pregnancy and venereal disease had been going down for years before the new 1960s attitudes toward sex spread rapidly through the schools, helped by War on Poverty money. These downward trends suddenly reversed and skyrocketed.

The murder rate had also been going down, for decades, and in 1960 was just under half of what it had been in 1934. Then the new 1960s policies toward curing the "root causes" of crime and creating new "rights" for criminals began. Rates of violent crime, including murder, skyrocketed.

The black family, which had survived centuries of slavery and discrimination, began rapidly disintegrating in the liberal welfare state that subsidized (paid for) unwed pregnancy and changed welfare from an emergency rescue to a way of life. . .

The economic rise of blacks began decades earlier, before any of the legislation and policies that are credited with producing that rise. The continuation of the rise of blacks out of poverty did not -- repeat, did not -- accelerate during the 1960s.

The poverty rate among black families fell from 87 percent in 1940 to 47 percent in 1960, during an era of virtually no major civil rights legislation or anti-poverty programs. . . . In various skilled trades, the incomes of blacks relative to whites more than doubled between 1936 and 1959 -- that is, before the magic 1960s decade when supposedly all progress began. The rise of blacks in professional and other high-level occupations was greater in the five years preceding the Civil Rights Act of 1964 than in the five years afterwards.

Source: Thomas Sowell is a conservative economist, author, and social commentator. He is currently a Senior Fellow at the Hoover Institution at Stanford University.

Stagflation and the oil crisis

Read about the economic downturn of the 1970s and the OPEC oil embargo of 1973-1974.

Overview In the early 1970s, the post-World War II economic boom began to wane, due to increased international competition, the expense of the Vietnam War, and the decline of manufacturing jobs. Unemployment rates rose, while a combination of price increases and wage stagnation led to a period of economic doldrums known as **stagflation**. President Nixon tried to alleviate these problems by devaluing the dollar and declaring wage- and price-freezes. The crisis was compounded when oil-rich nations in the Middle East declared an embargo against the United States in retaliation for its support of Israel. The oil embargo had a lasting effect on energy prices.

Economic woes of the 1970s-During the twenty-five years after World War II, the economic power of the United States was unparalleled. Indeed, contemporary observers commented that the postwar United States was in the midst of "the greatest prosperity the world has ever known."¹ The American gross national product (GNP), a measure of all goods and services produced by a country's citizens, increased from \$200,000-million in 1940 to more than \$500,000-million in 1960 to nearly a trillion dollars by 1970. Thanks to increases in productivity, the American standard of living had doubled between 1945 and 1970. With just six percent of the world's population, the United States enjoyed 40% of the world's wealth.²

But troubling signs began to emerge in the late 1960s. Unemployment rose by 33% between 1968 and 1970, while the consumer price index went up by 11%. At the same time, real wages began to stagnate. Simultaneous inflation and stagnation, nicknamed **stagflation**, puzzled economic analysts: usually, when wages fell, prices fell, and when wages increased, prices increased. But not in the 1970s. As a result, Americans had less purchasing power, and increasingly expensive American exports were at a disadvantage in the international market. In 1971, the United States experienced its first unfavorable international trade balance since 1893.

What caused this slump? The massive cost of the war in Vietnam and the expansion of social programs at home without commensurate tax increases helped to drive inflation (the price of goods and services). Meanwhile, US manufacturing (especially automotive manufacturing) had become less competitive over time compared to efficient overseas rivals, particularly in Germany and Japan. More and more American jobs were in the service sector, which had lower wages and fewer benefits than manufacturing jobs. Individuals born on the tail end of the baby boom found themselves competing in a very crowded labor market, especially as more women and immigrants entered the workforce.

The oil embargo In 1971, Richard Nixon attempted to remedy inflation by imposing a 90-day wage and price freeze. At the same time, he attempted to boost American exports by taking the dollar off the gold standard, devaluing the currency. These measures resulted in a short-term improvement (just long enough to get Nixon reelected in 1972) but did nothing to address the tangled roots of the problem. Then the energy crisis hit. In October 1973, the United States supported Israel after a surprise attack by Egypt and Syria in the **Yom Kippur War**. The oil-rich nations of the Middle East, already angry with the United States for devaluing the dollar (the currency used to purchase oil) determined to exact their revenge with an oil embargo. Led by Saudi Arabia, the **Organization of the Petroleum Exporting Countries (OPEC)** announced an oil shipping embargo against the United States as well as Israel's European allies.⁶⁶ The effects were immediate and dire. The price of oil shot up to \$11.65 per barrel, an increase of 387%. Lines miles-long formed at gas stations. The United States consumed one third of the world's oil, and its citizens quickly discovered just how much of daily life depended on cheap oil. Families living in far-flung suburbs depended on automobiles to get everywhere. Even after the embargo ended in March 1974, prices for oil remained about 33% higher than they had been before the crisis.

The end of the postwar economic boom-Stagflation and the oil embargo both seemed to suggest that the American golden age that had followed on the heels of World War II was at an end. First Vietnam and then the Middle East had revealed the limits of US power abroad. The complex forces which led to the downturn of the 1970s have continued to shape the American economy, particularly **globalization** (international interdependence of business and culture), which has accelerated as information technology has made communication and coordination easier. For example, many companies have moved manufacturing jobs out of the United States in order to save on labor costs. Today, 80% of all American jobs are in the service industry. Since the oil embargo, the United States also has worked to reduce its dependence on foreign oil through a variety of means, including reducing energy usage, improving vehicle fuel-efficiency, investing in renewable energy, and increasing domestic oil production. The quarter century after World War II was a time of incredible growth in the United States which produced the richest nation in human history, as well as a sense of unbridled optimism about the future. By the early 1970s, that chapter of the American adventure had ended. A new, altogether more uncertain era had begun.

<https://www.khanacademy.org/humanities/us-history/postwarera/1970s-america/a/stagflation-and-the-oil-crisis>

US ECONOMY ECONOMIC THEORY

What Is Reaganomics? Did It Work?

Would supply side economics work today?

BY KIMBERLY AMADEO

Updated August 09, 2018

Reaganomics is [President Ronald Reagan's](#) conservative economic policy that attacked the 1980 recession and [stagflation](#). Stagflation is an economic [contraction](#) combined with double-digit [inflation](#).

What Reaganomics Did

Reaganomics promised to reduce the government's influence on the economy. He supported [laissez-faire economics](#). He believed the [free market](#) and [capitalism](#) would solve the nation's woes. His policies matched the "[greed is good](#)" mood of 1980s America.

Reagan's position was dramatically different from the status quo. Prior presidents [Johnson](#) and [Nixon](#) had expanded the government's role.

Reagan pledged to make cuts in four areas:

1. The *growth* of government spending.
2. *Both* income taxes and [capital gains taxes](#).
3. [Regulations](#) on businesses.
4. The expansion of the [money supply](#).

Reaganomics is based on the theory of [supply-side economics](#). It states that [corporate tax cuts](#) are the best way to grow the economy. When companies get more cash, they should hire new workers and expand their businesses. It also says that income tax cuts give workers more incentive to work, increasing the supply of labor. That's why it's sometimes called [trickle-down economics](#).

In theory, the economic growth would expand the tax base. The added [government revenue](#) would replace the amount lost from the tax cuts.

Did It Work?

President Reagan delivered on each of his four major policy objectives, although not to the extent that he and his supporters had hoped. That's according to William A. Niskanen, a founder of Reaganomics. Niskanen belonged to Reagan's [Council of Economic Advisers](#) from 1981 to 1985. Inflation was tamed, but it was thanks to monetary policy, not fiscal policy. Reagan's tax cuts did end the recession.

But government spending wasn't lowered, just shifted from domestic programs to defense. The result? The federal debt almost tripled, from \$997 billion in 1981 to \$2.857 trillion in 1989.

Tax Cuts. Reagan cut tax rates enough to stimulate consumer [demand](#). By Reagan's last year in office, the top [income tax rate](#) was 28 percent for single people making \$18,550 or more. Anyone making less paid no taxes at all. That was much less than the 1980 top tax rate of 70 percent for individuals earning \$108,000 or more. Reagan indexed the tax brackets for inflation.

Reagan offset these tax cuts with tax increases elsewhere. He raised Social Security payroll taxes and some excise taxes. He also cut several deductions.

Reagan cut the [corporate tax rate](#) from 46 percent to 40 percent. But the effect of this break was unclear. Reagan changed the tax treatment of many new investments. The complexity meant that the overall results of his corporate tax changes couldn't be measured.

Slow Spending Growth. [Government spending](#) still grew, just not as fast as under President Carter. Reagan increased spending by 2.5 percent a year, mostly for defense. Cuts to other [discretionary programs](#) only occurred in his first year.

Reagan did not cut [Social Security](#) or Medicare payments. In fact, Reagan's budgeted spending was 22 percent of the [gross domestic product](#). That's higher than the standard 20 percent of GDP. But, the *growth* in spending was less than President Carter's 4 percent annual increase. These figures are adjusted for [inflation](#).

Reduce Regulations. In 1981, Reagan eliminated the Nixon-era price controls on domestic oil and gas. They constrained the free-market equilibrium that would have prevented inflation. Reagan also [deregulated](#) cable TV, long-distance telephone service, interstate bus service, and ocean shipping. He eased bank regulations, but that helped create the [Savings and Loan Crisis](#) in 1989.

Reagan increased, not decreased, import barriers. He doubled the number of items that were subject to trade restraint from 12 percent in 1980 to 23 percent in 1988. He did little to reduce other regulations affecting health, safety, and the environment. Carter had reduced regulations at a faster pace.

Tame Inflation. Reagan was lucky [Federal Reserve](#) Chairman [Paul Volcker](#) was already in place. Volcker vigorously attacked the double-digit inflation of the 1970s. He used [contractionary monetary policy](#), despite the potential for a double-dip recession. In 1979, Volcker began [raising the fed funds rate](#). By December 1980, it was at a historically high 20 percent.

These rates choked off economic growth. Volcker's policy triggered the recession of 1981 to 1982. [Unemployment](#) rose to 10.8 percent and stayed above 10 percent for 10 months.

Reaganomics Would Not Work Today

Today's conservatives prescribe Reaganomics to make America great again. President [Donald Trump](#), 2012 [Tea Party](#) followers, and other Republicans advocate it as the solution the economy needs. But the theory behind Reaganomics reveals why what worked in the 1980s could harm growth today.

Reaganomics and supply-side economics can be explained by the [Laffer Curve](#). Economist Arthur Laffer developed it in 1979. The curve showed how tax cuts could stimulate the economy to the point where the tax base expanded. It showed how Reaganomics could work.

Tax cuts reduce the [federal budget](#), dollar-for-dollar, immediately. These same cuts have a multiplier effect on economic growth. Tax cuts put money in consumers' pockets, which they spend. That stimulates business growth and more hiring. The result? A larger tax base.

But the effect that tax cuts have depends on how fast the economy is growing when they are applied. It also depends on the types of taxes and how high they were before the cut. The Laffer Curve shows that cutting taxes only increases government revenue up to a point. Once taxes get low enough, cutting them will decrease revenue instead. Cuts worked during Reagan's presidency because the highest tax rate was 70 percent. They have a much weaker effect when tax rates are below 50 percent.

For example, [President Bush](#) cut taxes in the 2001 [Economic Growth and Tax Relief Reconciliation Act](#) and the 2003 [Jobs and Growth Tax Relief Reconciliation Act](#). The economy grew and revenues increased. Supply-siders, including the president, said that was because of the tax cuts.

Other economists pointed to lower [interest rates](#) as the real stimulator of the economy. The [Federal Open Market Committee](#) lowered the [fed funds rate](#) from 6 percent at the beginning of 2001 to 1 percent in June 2003. The [fed funds rate history](#) illustrates how this decrease progressed through the years.