What ended the Depression—the New Deal or World War II?

Viewpoint: World War II, with little help from New Deal programs, brought America out of the Great Depression.

Viewpoint: Far from ending the Great Depression, the New Deal was an obstacle to recovery because it was not designed to restore national prosperity.

Historians have generally pointed to two different explanations for what ended the Great Depression. One is that President Franklin D. Roosevelt’s New Deal programs, if they did not eliminate unemployment and spur production, at least restored the American people’s confidence in the economic and political system and so kept social peace during the hard times of the 1930s. His programs, some historians argue, benefited certain segments of society and helped ease the strain of depression. When more prosperous times returned, the economic reforms Roosevelt initiated in 1933 and 1935, such as the Securities and Exchange Commission, Federal Deposit Insurance Corporation, National Labor Relations Board, and Social Security, saved the nation from ever experiencing the same kind of devastating economic catastrophe.

On the other hand, unemployment never fell below 14 percent during Roosevelt's first two administrations. Unemployment only ended when the war in Europe produced a demand for American goods—so World War II, not the New Deal, ended the Great Depression. One of President Harry S Truman’s greatest fears in 1945 was that with peace the country would revert into depression.

Who is right here? Truman was a firm supporter of New Deal policies, but did he support them because he believed they worked or did he have other reasons? Politicians may argue on matters of policy, but historians are supposed to find objective reasons for their explanations. In these two essays, Margaret Mary Barrett and Thomas E. Woods Jr. differ on how the Great Depression ended. Barrett argues that World War II effectively stimulated production and brought the depression to an end. While the New Deal was intended to resolve these economic problems, she argues, because it was more a hodgepodge of different programs and ideas than it was a coherent economic strategy, ultimately it failed.

Woods, on the other hand, sees the New Deal as something more than a series of attempts to stimulate the economy. He offers a sophisticated economic argument that the New Deal actually hurt the economy, that the Depression might have ended sooner had Roosevelt and his advisers not enacted programs such as the Agricultural Adjustment Act or the National Industrial Recovery Act. Woods’s argument would find strong support among the Republicans of 1933. However, Woods raises some intriguing points. The New Deal was a coherent economic program, he suggests, designed to support wages and protect the rights of workers. It was not intended to restore prosperity so much as it was designed to protect some workers, particularly organized labor, and to impose regulations on business. Prosperity, Woods
argues, only returned when the Republican Congress of 1947 restrained some radical features of the New Deal (notably with the Taft-Hartley Act)—and when the Eisenhower administration returned the country to what President Warren G. Harding had called “normalcy”—ending much of the regulations on business imposed by the Democrats in the 1930s.

Historians will argue over Barrett’s and Woods’s interpretations of these events. Citizens can debate the role of government regulation of the economy, whether the kinds of programs Roosevelt created were wise or beneficial, and whether the evils they were designed to prevent were greater than the inconveniences they may have created.

**Viewpoint:**

**World War II, with little help from New Deal programs, brought America out of the Great Depression.**

When World War II broke out in 1939, the United States was still struggling with the effects of the Great Depression. President Franklin D. Roosevelt had worked to alleviate conditions caused by the depression; however, he was unable to end the economic troubles because his policies did not stimulate enough demand on the U.S. economy. In effect, none of his programs—including the Emergency Banking Bill, the Farm Credit Act to forestall farm foreclosures, various housing acts, and the many reform measures such as the Social Security Act and the Wagner Act—permanently stimulated the economy, increased production, or alleviated unemployment. Some of Roosevelt’s programs brought temporary relief and reformed several aspects of capitalism, but they did not end the depression. This feat was achieved by World War II, which stimulated the economy in several ways. Existing industries, including textiles and steel, were revived by the demands of war; new industries, including petroleum, chemicals, aviation, and electronics, were given a large boost by government contracts. The demands of war, therefore, created a wealth of jobs and provided an economic stimulus to nearly every industry in the United States.

War demands accomplished more in the areas of finance, employment, and production than any of Roosevelt’s New Deal programs. Following the stock market crash of 1929, industrial production fell by one third. Unemployment affected 25 percent of the workforce. The collapse of Wall Street devalued capital stocks and erased a large segment of national wealth. A series of bank failures erased investments and savings, as businesses failed and individual bankruptcies followed.

No temporary fix could permanently repair these severe problems.

In their totality, New Deal programs were a series of haphazard attempts to repair a series of crises, ranging from bankruptcies and unemployment to underproduction in many industries. The New Deal was not preplanned by Roosevelt as a coherent and consistent program to permanently eliminate the depression. Instead, most recovery measures were short-term responses to strong pressure groups, each demanding relief from its own plight. Consequently, because there was no cohesive plan to repair the economy with these quick-fix reforms, the New Deal was not endowed with long-term vision.

Instead of bringing stability to the people of the United States, Roosevelt’s reforms brought instability. There had been steady improvement in 1935 and 1936 because of increased government spending, but there were also setbacks. In addition to relief and public-works expenditures, Congress provided for cash payment of veterans’ bonuses. But in 1937, Roosevelt ordered severe cuts in spending. A series of economic fluctuations culminated in the 1938 recession within the depression, which brought the economy to a low point that nearly matched that of 1929. From spring of 1937 until spring of 1938, industrial production fell by one third and at its nadir was 30 percent below its mid-1929 level. The average unemployment rate during this recession jumped to 19 percent, as two million more people were left jobless by the end of the year.

Roosevelt’s global plan to protect the domestic economy only hindered rehabilitation. During the early 1930s the United States placed a tariff on foreign goods in order to stimulate and protect domestic sales. In an effort to protect the farm economy from international competition, a series of quotas, embargoes and special import fees were put into effect. As the depression raged on, these measures only kept the United States from the benefits of international trade. As Europe came closer to World War II, many isolationists in Congress even thought that involvement in a foreign war would...
A production line at the Douglas Aircraft plant in El Segundo, California, ca. 1943
(National Archives, RG 80-G-412712)

undercut the New Deal’s attempts to recover from the depression.

This prediction proved incorrect, as World War II reopened the U.S. economy to international trade. It provided additional markets for its surplus goods. There were also increased demands for American exports and for the federal government to spend money for its growing national-defense industry. Belligerent nations that later became America’s allies required more American exports to help meet their civilian and war needs, and nonbelligerents turned increasingly to American exports as supplies from warring countries decreased. U.S. exports had averaged below $4.4 billion in the years immediately preceding 1940; in 1941 they were $1.5 billion higher.

War brought instant economic gain for the U.S. defense program. The expansion of defense output began in the spring of 1940 and accelerated throughout the war. In the years immediately preceding 1940, total federal expenditures for goods and services were below $5.4 billion; in 1941 they were $16.9 billion, of which nearly $13.8 billion was for national defense. Thus the government was spending for national defense alone about two and a half times as much as it had for all purposes in the years before 1940. Between 1940 and 1944 U.S. industrial output rose by 90 percent; agricultural production grew by 20 percent; and the total national production of goods and services expanded by 60 percent. The gross national product jumped from $100 billion in 1940 to $214 billion in 1945. These developments brought unprecedented levels of employment and income to Americans.

A large part of the drive for defense production was ignited by Roosevelt’s creation of the “arsenal of democracy.” In 1939 he proposed and Congress approved a program that allowed American industries to sell war goods to France and Britain on a cash-and-carry basis, which enabled the United States to sell arms to the democracies as long as they picked them up and carried them off. Roosevelt sold the program to Congress as an arsenal to preserve European democracy. In effect the program brought wealth to American industry and jobs to workers in defense industries. Improved trade supplemented this growth in October 1941, when Roosevelt persuaded Congress to remove nearly all restrictions on American commerce, permitting American merchant vessels to carry goods to British ports.

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Unemployment was also alleviated during the war. During the depression the average rate of unemployment never fell below 14.3 percent. In 1941 it dropped to 9.9 percent. It was not until 1943, however, two years after the United States joined the war, that the nation returned to near-full employment. Within the federal government alone the number of civilian employees quadrupled from about 950,000 in 1939 to 3.8 million in 1945.

Investment also increased as individual businesses, particularly large, established corporations, reaped big profits during the war. Agricultural prices soared and profits increased as a powerful farm group in Congress prevented a low-price ceiling on farm goods. This action allowed them to earn higher revenues on their output. Big and small businesses in steel, copper, and manufacturing industries benefited from wartime military contracts. The automobile industry boomed as assembly lines were used to produce planes and tanks in addition to automobiles.

World War II was in many respects an economic turning point for the United States. It not only ended the Great Depression, but it also brought unprecedented prosperity to the country. Perhaps more significant than financial gains, the war restored faith in American economic and political structures. At its core the Great Depression had instilled a collective feeling of despair over the many failures of the American system. The war eliminated doubt and frustration by creating jobs and restoring, and eventually increasing, prosperity in the United States.

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Viewpoint:
Far from ending the Great Depression, the New Deal was an obstacle to recovery because it was not designed to restore national prosperity.

That Franklin D. Roosevelt lifted the United States out of the Great Depression has reached the status of something “everyone knows.” Historians themselves, whom people expect to be dispassionate and impartial, have had difficulty containing their enthusiasm for FDR’s New Deal. Discussing the state of New Deal scholarship, Paul K. Conkin, in the preface to his The New Deal (1975), observed that “pervading even the most scholarly revelations was a monotonous, often almost reflexive, and in my estimation a very smug or superficial valuative perspective—approval, even glowing approval, of most enduring New Deal policies, or at least of the underlying goals that a sympathetic observer could always find behind policies and programs.” “The reams of social and economic legislation for which FDR was responsible are spelled out proudly in every American history textbook,” writes historian Gary Dean Best in Pride, Prejudice, and Politics: Roosevelt Versus Recovery, 1933–1938 (1991), “but the costs for the United States of his eighty-year-long war against business recovery are mentioned in none.” Indeed, far from accelerating America’s recovery from the depression, FDR’s New Deal only prolonged it.

At no time during the 1930s did the percentage of unemployed Americans drop below double digits. From 1933 to 1940 it averaged a whopping 18 percent. FDR’s best year was 1937, when the rate dropped temporarily to 14.3 percent, but by the end of the year the economy was nearly as bad as it had been when FDR entered office. When the United States entered World War II, unemployment was still at 18 percent—the same rate during Roosevelt’s first year as president. If the war relieved unemployment and restored “prosperity,” it did so in ways that were hardly ideal: production, while high, was diverted from consumer needs into war materiel, and the fifteen million men and women in military service, while no longer showing up as “unemployed” in national statistics, can hardly be said to have experienced an economic turn for the better.

According to the econometric estimates of Ohio University economists Richard K. Vedder and Lowell E. Gallaway, as reported in Out of Work: Unemployment and Government in Twentieth-Century America (1993), in the absence of Roosevelt’s policies the Depression “would have been completely over (less than 5 percent unemployment) by 1936.” One of the most important factors standing in the way of this happy outcome was the high-wage policy that Roosevelt pursued through his New Deal programs. The National Industrial Recovery Act (NIRA), which organized businesses into the equivalent of industry-wide cartels, forced member businesses to agree to wage floors imposed by organized labor. These minimum wages, however, were extremely high—and in light of the depressed condition of American business, almost absurdly so. The general minimum was 90 percent of the average hourly wage of 1933. The fairly predictable result was that a select few prospered during the depression, enjoying the high wages that FDR’s programs made possible, while at the same time millions of Americans had no wages at all. In fact, as Vedder and Gallaway point out, Americans bought more than twice as
many refrigerators in 1935, when unemployment was over 20 percent, as in 1929, when unemployment was 3.2 percent. The Wagner Act, which gave a boost to organized labor, continued this high-wage policy. By 1938, moreover, nearly 1.2 million people had become victims of unemployment stemming from the increased wage costs associated with Social Security. Obsessed with the idea of increasing consumer purchasing power, FDR and his administration saw in high wages a way out of the depression—failing to realize that wages are a cost of doing business, and that the only way to achieve full employment is to allow wages on their own to clear the market and reach a sustainable level.

Like his predecessor, Herbert Hoover, FDR and his advisers believed for whatever reason that in addition to low wages, falling prices were a principal cause of the Great Depression, rather than a symptom of it. The natural remedy, therefore, was to increase prices by any means necessary. Hence the logic, such as it was, of the Agricultural Adjustment Act (AAA), which paid farmers to destroy enormous quantities of crops and livestock, as well as to take many thousands of acres out of production entirely. Thus, at a time when millions of Americans found themselves reduced to near-starvation levels, and shortly after Roosevelt himself made his famous observation that he saw one-third of a nation ill-fed and ill-clad, the government slaughtered some six million pigs, burned oats, and demanded that cotton crops be plowed under. While this program was under way, the Department of Agriculture released a study regarding the American diet during these lean years. The Department constructed four sample diets: liberal, moderate, minimum, and emergency (below subsistence). Its figures were sobering: America was not producing enough food to sustain its population at the minimum (subsistence) diet. John T. Flynn, a liberal journalist turned New Deal opponent, mused in his 1998 biography of Roosevelt, The Roosevelt Myth: “How to better this may be a problem, but the last course a government run by sane men would adopt to get it solved would be to destroy a good part of what we do produce.”

Interestingly, shortly after the Supreme Court declared the AAA unconstitutional in early 1936, the Department of Agriculture’s Bureau of Agricultural Economics reported that in the case of cotton, farm income would have been at least as high and perhaps even higher in the absence of the AAA. The following month, Cornell University’s James E. Boyle argued in the Atlantic that among other things the AAA had been responsible for the joblessness of at least two million people, especially sharecroppers and other farm laborers.

Beneath the surface of most New Deal programs was the assumption that “purchasing power” needed to be restored. The Magazine of Wall Street countered with the reasonable question: if the president believed, as he seemed to, that reducing the work week (in order to spread work among more people) and increasing wages would help the economy by boosting purchasing power, “why not swell purchasing power still more by establishing a 10-hour week and quadrupling wages?” The very emphasis on “purchasing power” in the first place was based on a misapprehension of the causes of the depression, the presumption being that the downturn occurred because of “underconsumption”—that people could not afford to buy the goods the economy was producing. What this superficial diagnosis ignored was that the economic downturn was relatively mild in consumer-goods industries; it was in producer-goods industries that the depression was most severe.

How, then, to encourage capital accumulation and revive the depressed producer-goods industries? The only sustainable way was to create a climate favorable to business, something FDR did not do. Forthcoming from his administration was a series of ceaseless and bewildering regulatory measures, combined with tax increases, increased labor costs (thus making it more difficult for businesses to employ workers), and endless denunciations of “economic royalists.” More than once, and apparently in all seriousness, Roosevelt expressed his suspicion that the banking and business communities were trying to sabotage his program. None of these assertions were calculated to encourage capital accumulation or boost business confidence.

Thus, another factor contributing to the abnormal unemployment figures that persisted throughout the 1930s was something that economic historian Robert Higgs, in a 1997 Independent Review article, has called “regime uncertainty.” Investment tends to decline during a period in which the business community is uncertain about the security of private-property rights and the intentions of the current regime. Organized polling began only during the 1930s, and it was not until 1939 that pollsters began to compile data on the perceptions of businessmen and the general public regarding the climate for investment. That year an organization called the American Institute of Public Opinion (AIPO) posed the question: “Do you think the attitude of the Roosevelt administration toward business is delaying business recovery?” Some 54 percent said yes and 26 percent said no, with the remainder having no opinion. The AIPO also asked Americans, “Do you think that ten years from now there will be more or less government control of business?” Fifty-six percent said more, 22
A HEART-TO-HEART

The following address to the American people is taken from a radio broadcast made by President Franklin D. Roosevelt on Thursday night, 14 April 1938.

... Five years ago we faced a very serious problem of economic and social recovery. For four and a half years that recovery proceeded apace. It is only in the past seven months that it has received a visible set back.

And it is only within the past two months, as we have waited patiently to see whether the forces of business itself would counteract it, that it has become apparent that government itself can no longer safely fail to take aggressive government steps to meet it.

This recession has not returned to us to the disasters and suffering of the beginning of 1933. Your money in the bank is safe; farmers are no longer in deep distress and have greater purchasing power; dangers of security speculation have been minimized; national income is almost 50% higher than it was in 1932; and government has an established and accepted responsibility for relief.

But I know that many of you have lost your jobs or have seen your friends or members of your families lose their jobs, and I do not propose that the Government shall pretend not to see these things. ... I said in my Message opening the last session of the Congress that if private enterprise did not provide jobs this spring, government would take up the slack—that I would not let the people down. We have all learned the lesson that government cannot afford to wait until it has lost the power to act.

Therefore, my friends, I have sent a Message of far-reaching importance to the Congress. I want to read to you tonight certain passages from that Message, and to talk with you about them. ... 

First, I asked for certain appropriations which are intended to keep the Government expenditures for work relief and similar purposes during the coming fiscal year that begins on the first of July, keep that going at the same rate of expenditure as at present. That includes additional money for the Works Progress Administration; additional allotments for the National Youth Administration; and more money for the Civilian Conservation Corps, in order that it can maintain the existing number of camps now in operation.

These appropriations, made necessary by increased unemployment, will cost about a billion and a quarter dollars more than the estimates which I sent to the Congress on the third of January last.

Second, I told the Congress that the Administration proposes to make additional bank reserves available for the credit needs of the country. About one billion four million dollars of gold now in the Treasury will be used to pay these additional expenses of the Government, and three-quarters of a billion dollars of additional credit will be made available to the banks by reducing the reserves now required by the Federal Reserve Board.

These two steps taking care of relief needs and adding to bank credits are in our best judgement insufficient by themselves to start the Nation on a sustained upward movement.

Therefore, I came to the third kind of Government action which I consider to be vital. I said to the Congress:

"You and I cannot afford to equip ourselves with two rounds of ammunition where three rounds are necessary. If we stop at relief and credit, we may find ourselves without ammunition before the enemy is routed. If we are fully equipped with the third round of ammunition, we stand to win the battle against adversity."

This third proposal is to make definite additions to the purchasing power of the Nation by providing new work over and above the continuing of old work. ...

In recommending this program I am thinking not only of the immediate economic needs of the people of the Nation, but also of their personal liberties—the most precious possession of all Americans. I am thinking of our democracy.
percent less, with 22 percent either expecting no change or had no opinion. Also in 1939 Fortune magazine asked business executives: "With which of these two statements do you come closest to agreeing? (1) The policies of the administration have so affected the confidence of businessmen that recovery has been seriously held back; (2) businessmen generally have been unjustly blaming the administration for their troubles." It found 64.8 percent of respondents agreeing with the first statement and 25.6 percent with the second, with 9.6 percent saying they did not know. In late 1941, on the eve of American entry into World War II, Fortune polled business executives regarding the kind of economic regime they expected to see in place after the war. A whopping 93 percent believed that private property would be further compromised in one way or another. Perhaps more ominously, fully 86.7 percent expected "a semi-socialized society in which there will be very little room for the profit system to operate," with another 3.7 percent anticipating "a complete economic dictatorship along fascist or communist lines." All these figures reveal serious and ongoing misgivings and uncertainty on the part of business. Higgs concludes that, "given the unparalleled outpouring of business-threatening laws, regulations, and court decisions, the oft-stated hostility of President Roosevelt and his lieutenants toward investors as a class, and the character of the antibusiness zealots who composed the strategists and administrators of the New Deal from 1935 to 1941, the political climate could hardly have failed to discourage some investors from making fresh long-term commitments."

In addition to polling data, Higgs provides a second source of evidence of "regime uncertainty" among American businessmen and investors: activity in the financial markets and related investment data. He finds, for example, that the "investments made during the first and second Roosevelt administrations remained far more concentrated in short-term assets than the investments made during the latter half of the 1920s." The kind of sustained, long-term investment needed for any recovery was precisely what uncertain businessmen were moving away from. Likewise, an examination of the bond market in the mid 1930s reveals an enormous risk premium—nowhere to be found in the years before 1934—on long-term bonds. That is to say, "Investors' confidence in their ability to appropriate the longer-term interest payments and principal repayments promised by the country's most secure corporations plummeted between early 1934 and 1936." A crippling uncertainty about the future had reached historic highs.

Pride, Prejudice, and Politics is filled with case after case of bankers, businessmen, and economists pleading with the administration to do something to reassure an uncertain business community. In the fall of 1934 a meeting of more than one hundred business executives and financial experts was held on Long Island, New York, under the auspices of the American Management Association. Their report, approved with only two dissenting votes and sent to Roosevelt through Secretary of the Treasury Henry Morgenthau, concluded that "uncertainties concerning the fiscal situation likely to result from the Government's borrowing and spending activities, with consequent effects upon monetary and revenue policies, are retarding reemployment and recovery." The Illinois Manufacturers' Association, in a statement forwarded to Roosevelt through Secretary of Commerce Daniel C. Roper, cautioned that "the principal obstacle to business revival, with accompanying increase in unemployment, is the almost universal attitude of uncertainty and apprehension on the part of business executives regarding the future policies of the federal government on issues directly affecting the welfare of private enterprise." Such examples could be multiplied almost indefinitely. Even Walter Lippmann, himself no conservative and in fact an erstwhile supporter of the New Deal, broke with Roosevelt over the president's ongoing inability—or refusal—to come up with anything more creative than still more punitive measures against business. Roosevelt's measures, "from AAA to the Stock Market Bill," only retarded enterprise "at a time when the relief of unemployment and of insolvency depends primarily upon the revival of enterprise." What the economy desperately needed was for Roosevelt to give business a "breathing spell," free of new reform initiatives. None was forthcoming.

In June 1935, in fact, Roosevelt proposed a series of tax increases, calling for higher inheritance taxes, gift taxes, and personal income taxes as well as a graduated scale of corporate income taxes. Lippmann, still frustrated by the New Deal, commented that the tax bill reflected "the absence of any plan and the lack of intellectual effort, the work of tired brains, relying on their wishes and their prejudices and throwing out casual suggestions which they are too hot and bothered to think about." Even The New Republic, a liberal magazine, complained that "the whole conception behind [the tax bill] overlooks the fundamental fact that there is little point in trying to redistribute wealth as long as nothing is done to produce more than a fraction of the wealth we are equipped to create." The tax bill that Congress ultimately passed fell short of what Roosevelt had requested. But the effort helped to alienate a good portion of the president's supporters. As Best notes, "Previously pro-Roosevelt newspapers, newspapermen, businessmen, and progressives abandoned him in large numbers over the tax bill, many of them not to return to the New Deal fold again. In large part the defection resulted because . . . the arguments put
forth in defense of the bill were so quickly and easily discredited, and that when these layers of argument were peeled away nothing remained to justify the bill but prejudice, vindictiveness, and spite."

What, then, ended the Great Depression? Most historians, forced to concede the ultimate failure of the New Deal, say World War II. But in a groundbreaking article in the Journal of Economic History, Higgs recently challenged this thesis. What ended the depression was a return to what Warren G. Harding called "normalcy"—when the ceaseless stream of regulation, regimentation, and taxation, as well as the myriad dislocations of war, at last came to an end. Then, finally, was the American economy allowed to recover.

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