The “FDR Failed Myth”

The current recession will soon become the longest since the Great Depression. The U.S. is losing over 500,000 jobs each month, and a new president, elected overwhelmingly, is pleading for unity and urgent action on a scale not seen since the New Deal.

At such a moment, it is imperative to expose a dangerous popular myth regarding the efficacy of President Roosevelt’s actions: that it was not the programs of the New Deal, but only the placing of the nation on a wartime footing years later, that restored the health of the nation’s economy.

This belief, though widely held, cannot stand up to even the most basic economic analysis. Yet the mainstream corporate media, which abound with anti-government ideology, seek to reinforce this myth. Just this past Sunday, The Washington Post featured on Page One of its Outlook section an article by Amity Shlaes headlined “FDR Was a Great Leader, But His Economic Plan Isn’t One to Follow.” Underscoring Shlaes’s made-up claims, the Post ran the continuation of her piece under the title: “FDR’s Plan Failed to Spark Real Growth.”

In it, Shlaes, having passed over the anything-goes policies that led to the financial crash in 1929—and, to a great extent, the devastating economic losses that occurred between 1929 and Roosevelt’s 1933 inauguration—also completely leaves out any specific data on gross domestic product, incomes, consumer spending, production, investment or jobs even for the New Deal period she presumes to explain. Indeed, her pitch is based entirely on emotional misrepresentation.

The basic economic facts from the 1930s—according to the Department of Commerce, the Federal Reserve, and other official sources—are fundamentally different from the unsupported claims put forward by Shlaes and prominent in popular myth. The monthly data for industrial production show a near three-year collapse under President Hoover, ending when FDR came to office in March 1933. Production rocketed by 44 percent in the first three months of the New Deal and, by December 1936, had completely recovered to surpass its 1929 peak.

GDP , only available as annual averages, plunged 25.6 percent from 1929-1932, including by 13.0 percent in 1932. It stabilized in 1933, and then soared by 10.8 percent, 8.9 percent and 12.0 percent, respectively, in 1934, 1935 and 1936. Real GDP surpassed its 1929 peak in 1936 and never again fell below it. After-tax personal income, consumer spending, real private investment and jobs all reached or surpassed their 1929 peaks by late 1936.

In fact, like every decade between 1850 and 1990, the 1930s suffered two distinct downturns. The official U.S. Business Cycle Dating Committee established that the downturn that began in August 1929 ended in March 1933 with the remarkable economic expansion that started within days of FDR’s bold—if trial and error—New Deal programs. By any normal definition, the Great Depression had ended by late 1936, with all major indicators surpassing their previous peaks.

A second cyclical downturn officially began in May 1937 when FDR, always a fiscal conservative, mistakenly thought the economy had become self-sustaining and slashed public spending programs to balance the budget. These harsh and premature spending cuts caused another severe recession that ended after 13 months in June 1938.

Even in this severe downturn, annual GDP did not fall back below its 1929 peak. And although many suffered and most economic measures did fall back below their 1929 levels, not one fell anywhere close to its March 1933 low. For example, although industrial production fell sharply in the 1937-38 recession, at its low point, in April 1938, it remained 49 percent above its level of March 1933.

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When the economy again contracted sharply in late 1937 and early 1938, FDR quickly reversed course and rapid growth immediately began again. GDP soared by 10.9 percent in 1939 and industrial production soared by 23 percent.

Shlaes’s Post article begins with a misleading, emotional story of a young, desperate boy’s tragic suicide in 1937. She does not inform readers that FDR had reversed course and was sharply cutting—not adding to—New Deal spending at the time this suicide likely occurred. Rather, she uses this emotional tale to turn facts on their head, asserting—with no actual evidence—that public spending was ineffective and New Deal programs failed.

Like other ideological critics of government, Shlaes sites only two economic indicators of the 1930s: the falling but persistently high unemployment rate and the length of time required for the stock market to recover after its bubble burst. Neither of these is used in any serious economic or policy analysis.

Media emphasize the unemployment rate but, because it is known to be lagging and misleading, it is not considered at all by economists in determining the start or end of a recession or depression. This is because people stop looking for jobs when there are none to be found and begin looking again when conditions improve. Serious analysis, including recession and depression dating, use the separate business reporting of actual jobs added or lost.

Despite the new record peak in the number of jobs by late 1936, because of population growth and because more people were encouraged to seek jobs, the unemployment rate did remain very high until public spending programs truly exploded with the start of World War II. But even here, it was again vastly expanded government spending, this time to fight the war, that ended high unemployment.

Finally, Shlaes points to the long time before the Dow Jones industrial average regained—in 1954—its 1929 bubble levels as a key factor “that made the Depression Great.” This is, again, Shlaes’s own unique perspective, absent from serious assessments by economists but used by her as a basis for advocating further income and capital gains tax cuts for upper-income Americans. Unmentioned is that these policies were implemented by President Bush and yet, over the eight years of his presidency, the Dow Jones industrial average fell 25 percent and the NASDAQ plummeted 48 percent.

Myth and ideology aside, the data show that from 1933 through 1936 the New Deal produced double-digit annual growth in GDP , production, after-tax income and private investment, with strong consumer spending and job growth exceeding their peaks in the 1929 bubble. The Great Depression ended by late 1936.

While a new, severe recession began in May 1937 because FDR prematurely slashed public spending on New Deal programs, rapid growth quickly resumed in late 1938 when funding was restored.

Today, the U.S. and the world again face extreme crises similar to those in the early days of the 1930s. The largely unregulated private financial and commercial sector has utterly bankrupted itself. I personally believe the recent and current bailout and stimulus packages are grossly misdirected and inadequate when compared with the remarkable trade and industrial policy strategies being implemented elsewhere, particularly in China.

But history has shown that crisis can bring people together in common, public purpose or it can set them against one another. Our circumstances are far too dangerous to leave uncorrected the antigovernment disinformation and myths from the 1930s, and in our own generation.

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