Roosevelt’s New Deal: The First and Second New Deals

by Sophia

WHAT'S COVERED

Franklin Delano Roosevelt began his administration in March 1933, seeking a combination of recovery and relief programs to regulate the economy and offer assistance to the American people. What later came to be known as the First New Deal began a period of legislative activity seldom equaled in U.S. history. By the end of 1933, Congress had passed more than 15 major pieces of legislation to alleviate the impact of the Great Depression.

This tutorial examines the First New Deal in three parts:

1. Solving the Banking Crisis

When **Franklin Delano Roosevelt** took office on March 4, 1933, he faced one of the worst crises in the country’s banking history. Over 5,000 banks had closed. States including New York and Illinois had ordered all banks within their borders to close to prevent additional **bank runs**.

PEOPLE TO KNOW

Franklin Delano Roosevelt
Democratic president who led the United States from 1933 to 1945 and navigated the country through the crisis of the Great Depression and World War II.

TERM TO KNOW

Bank Runs
The withdrawal of money from a bank by a large number of account holders because of their lack of confidence in the bank’s stability.

Within 48 hours of his inauguration, Roosevelt proclaimed a bank holiday, which temporarily halted bank operations throughout the nation, and called Congress into a special session to address the crisis. Congress passed the **Emergency Banking Act**, which Roosevelt signed into law on March 9, 1933, only 8 hours after a draft proposal was presented to Congress by the administration.

TERM TO KNOW

Emergency Banking Act

Passed by Congress to address the banking crisis; expanded the power of the Federal Reserve to distribute currency and provided for the reopening of banks under federal supervision.

The act implemented two major changes:

1. It took U.S. currency off the gold standard. Although it had been seen as a sound policy, the gold standard severely limited the amount of paper money in circulation as the Depression worsened. Under the terms of the act, anyone who held gold deposits was required to sell them to the U.S. Treasury at a discounted rate. In addition, paper currency could no longer be exchanged for gold.
2. It authorized the federal government to reorganize all banks that faced insolvency or were unable to pay their debts.

Between March 11 and March 14, federal auditors examined all U.S. banks. On March 15, 70% of the nation's banks were declared solvent and allowed to reopen.

On March 12, before the banks reopened, Roosevelt delivered his first "**fireside chat**."

TERM TO KNOW

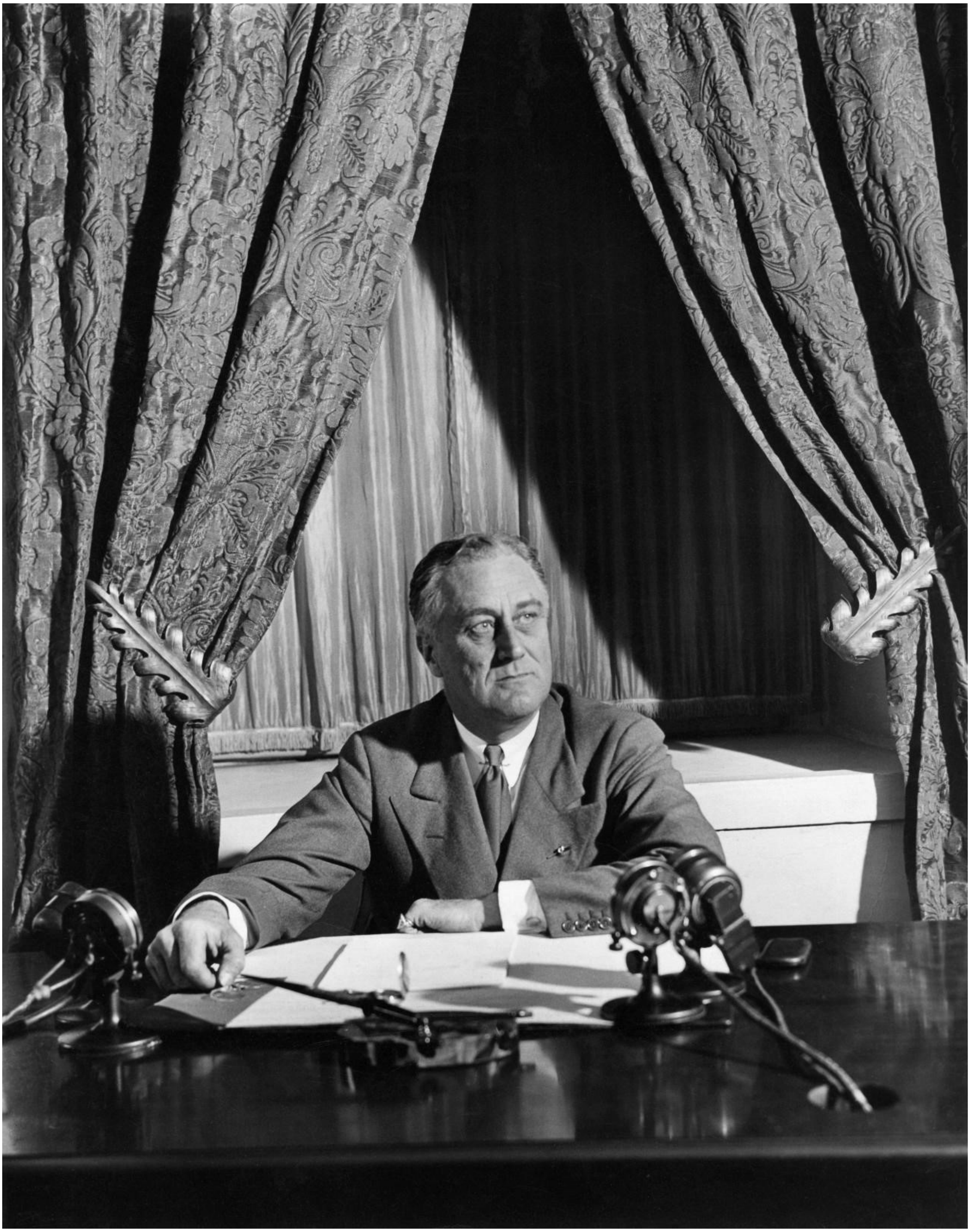
Fireside Chat

A radio address in which President Roosevelt outlined key ideas and programs for the American people.

Additional Resource

Listen to an audio recording of FDR's first fireside chat from the Miller Center.

In the first "chat," he opened by stating, "I want to talk for a few minutes with the people of the United States about banking." Roosevelt explained what the bank examiners had been doing during the previous week. He assured listeners that any bank that opened the next day (or in the coming days) had the federal government's stamp of approval. He asserted that this was something that the federal government had to do, saying, "We had a bad banking situation . . . . It was the Government's job to straighten out this situation and to do it as quickly as possible—and the job is being performed."



President Roosevelt prepares to give his first fireside chat to the American people on March 12, 1933.

The address underscored Roosevelt’s savvy in communicating with the American people. He explained complex financial and legal concepts in understandable terms and complimented citizens on their “intelligent support” of the government’s efforts. Most importantly, he inspired confidence by closing his address as follows:

> **Franklin D. Roosevelt, "Fireside Chat"**
>
> "Let us unite in banishing fear. We have provided the machinery to restore our financial system; it is up to you to support and make it work. It is your problem no less than it is mine. Together we cannot fail."

The combination of the Emergency Banking Act and the first fireside chat worked wonders. Consumer confidence returned, and, within weeks, almost $1 billion in cash and gold emerged from under mattresses and bookshelves and was redeposited in the nation's banks.

Roosevelt's fireside chats with Americans have been commemorated at the Franklin D. Roosevelt Memorial in Washington, DC, with this bronze sculpture by George Segal.

Source: Koshy Koshy.

When the banking crisis ended, Congress moved to implement permanent reforms of the system, many of which are still in effect today. The most notable of these was the **Glass-Steagall Banking Act**, which Roosevelt approved in June 1933.

TERM TO KNOW

Glass-Steagall Banking Act

Prohibited commercial banks from engaging in investment banking; created the Federal Deposit Insurance Corporation (FDIC), which insured personal bank deposits up to $2,500.

MAKE THE CONNECTION

The Financial Services Modernization Act of 1999 repealed sections of the Glass-Steagall Act, specifically the prohibition of commercial banks from engaging in investment banking. The act created new institutions known as financial holding companies (FHCs), sometimes criticized as “superbanks.” FHCs enabled banking corporations to oversee subsidiaries that engaged in activities such as commercial banking, investments, and mortgages. Critics of the Financial Services Modernization Act of 1999 link the housing and financial crises of 2007–2008 to the repeal of Glass-Steagall. The proposal to enact a “21st-century Glass-Steagall Act” has become a rallying cry for some Democrats.

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2. The First New Deal

In addition to resolving the banking crisis, the First New Deal advanced legislation in two key areas: relief and recovery. Roosevelt’s predecessor, Herbert Hoover, was reluctant to provide direct federal relief to unemployed Americans. Roosevelt recognized that millions of the unemployed required relief—including jobs—more quickly than the private sector could provide them.

2a. Relief

Beginning in late March of 1933, Roosevelt approved several initiatives that made the federal government a provider of unemployment relief. The first was the **Federal Emergency Relief Administration** (FERA).

TERM TO KNOW

Federal Emergency Relief Administration

Sent federal money to the states to provide local relief agencies with the resources necessary to provide work to unemployed Americans.

Roosevelt initially authorized $500 million in direct grants to the states. However, state and county offices (already overburdened as a result of the Depression) were unable to screen recipients and distribute relief. Local political organizations pocketed some of the federal funds instead of using them to create relief programs.

In response, the federal government took steps to create jobs by organizing public works agencies and work relief programs. The agencies and programs hired unemployed workers. One of the most notable agencies was the **Civil Works Administration** (CWA).

TERM TO KNOW

Civil Works Administration

A public program that directly employed workers on public works projects.

Organized in November 1933, the CWA employed more than 4 million Americans by January 1934. Workers repaired bridges, built roads and airports, and completed other public projects.

Another notable work program was the **Civilian Conservation Corps** (CCC).

TERM TO KNOW

Civilian Conservation Corps

A public program for young, unemployed men who were put to work on conservation and land management projects around the country.

Among the most popular New Deal programs, the CCC employed young (aged 14 to 24), employed men. Earning $30 a month (a portion of which they sent to their families), CCC employees did a variety of outdoor jobs, including planting trees, constructing dams, fighting forest fires, restoring historic sites and parks, and building roads and infrastructure that Americans continue to use today. More than 3 million young men had worked for the CCC by 1942, when the program ended.

2b. Recovery

Industrial and agricultural recovery were the other key areas that the First New Deal addressed. The Roosevelt administration drafted two of the most significant pieces of New Deal legislation to deal with the underlying problems in the economy. The first was the **Agricultural Adjustment Act** (AAA).

TERM TO KNOW

Agricultural Adjustment Act

Established production quotas for certain crops to stabilize and increase prices; paid farmers not to produce more in order to prevent the prices from falling.

Farms around the country struggled—and failed—during the Great Depression. In the Great Plains, the drought severely limited farmers' ability to raise crops, while in the South, abundant harvests led to prices that were too low for farmers to earn a living by selling them. The AAA provided direct financial relief and paid farmers to reduce the production of certain crops, including wheat, cotton, corn, and hogs.

EXAMPLE Farmers received 30 cents per bushel for corn they did not grow. Hog farmers were paid $5 per head for hogs not raised.

The AAA was a bold attempt by the federal government to help farmers address the systemic problem of overproduction and the lower commodity prices resulting from it. However, there was an excess of some agricultural products, particularly cotton, and hogs before the AAA went into effect.

EXAMPLE This led the federal government to order 10 million acres of cotton to be plowed under and the butchering of 6 million baby pigs (and 200,000 sows).

Although the AAA improved prices (e.g., the price of cotton increased from 6 to 12 cents per pound), the destruction of agricultural products was deeply problematic. Critics pointed out that the government was destroying food to drive up prices, while some citizens starved.

A second significant measure, the **National Industrial Recovery Act** (NIRA), sought to stabilize the manufacturing sector and place it on the road to recovery.

TERM TO KNOW

National Industrial Recovery Act

Encouraged businesses and industries to work together to establish codes of fair competition, including price-setting and minimum-wage guidelines.

New Deal officials believed that supporting collaboration between businesses would enable them to stabilize prices and production levels. Some officials believed these collaborations would protect workers from entering unfair agreements.

A new government agency, the National Recovery Administration (NRA), was central to the implementation of NIRA. It mandated that businesses accept a code that included limits for minimum wage and maximum work hours. Industries were required to adopt “codes of fair practice” that upheld workers’ rights to organize and collectively bargain to ensure that wages increased as prices rose.

(a)

(b)

Consumers were encouraged to do business with companies that displayed the Blue Eagle (a), which signified compliance with NRA regulations. Portrayed with talons gripping a gear (representing industry) and lightning bolts (representing power), the eagle (b) served as a symbol of economic recovery.

The NRA created over 500 codes for industries—a large and growing number of regulations that led to unforeseen problems. While codes for key industries (e.g., automotive and steel) made sense, similar codes for dog food manufacturers and shops that made shoulder pads for women’s clothing, for example, did not.

The **Public Works Administration** (PWA) produced some of the most lasting benefits of NIRA.

TERM TO KNOW

Public Works Administration

Contracted with private companies to build public projects, including highways, federal buildings, and military bases.

With an appropriation of $3.3 billion, the PWA completed over 34,000 public works projects, including the Golden Gate Bridge in San Francisco and the Queens–Midtown Tunnel in New York. Between 1933 and 1939, the PWA accounted for the construction of over one third of all new hospitals and 70% of all new public schools in the United States.

3. Assessing the First New Deal

The First New Deal was far from perfect, but Roosevelt’s quickly implemented policies reversed the economy’s slide and restructured Americans’ relationship with the federal government.

The Emergency Banking Act infused ailing banks with new capital. Work relief programs like the CWA and the CCC offered direct relief to the unemployed. The AAA and NIRA provided incentives and organizational methods to farmers and industries to put the economy on a path toward recovery.

DID YOU KNOW

The number of working Americans rose from 24 to 27 million between 1933 and 1935, in contrast to the 7-million-worker decline that occurred during the Hoover administration.

Roosevelt did not conceive or implement the First New Deal on his own. At times, it seemed to consist of a series of disjointed efforts based on different (and sometimes baffling) assumptions. For example, a program designed to decrease production (or make payments in return for no production) in an attempt to set prices on industrial goods and raise the prices of crops seemed counterintuitive to some manufacturers and farmers.

However, these programs were designed to combat what Roosevelt and his advisors believed had caused the Great Depression: abuses on the part of a small group of bankers and businessmen, aided by Republican policies that built wealth for a few at the expense of many. They believed that the solutions would be accomplished by reforming the banking system, strengthening labor's bargaining power, and adjusting the production and consumption of agricultural and industrial goods.

For the first time since the Progressive Era, many Americans looked to the government for direction and support. Progressives implemented reforms in response to the problems of the Gilded Age and World War I; the Great Depression created an opportunity for even greater reform. Progressivism focused on perfecting democracy and social justice. The New Deal created government structures and agencies that regulated the economy. By means of work relief programs and other measures, the New Deal established safety nets for the victims of the Great Depression. In these ways, the New Deal established the foundation of the modern welfare state in America.

SUMMARY

After assuming the presidency, Roosevelt lost no time in taking bold steps to address the poverty and unemployment that plagued the country. He declared a bank holiday, during which he presented Congress with draft legislation known as the Emergency Banking Act, which empowered federal agents to examine all banks before they reopened. The passage of the act and the reopening of approved banks restored public confidence in the banking system. Roosevelt signed additional legislation to create jobs and to support industry and agriculture. Not all of this legislation (and the programs it created) was effective, but some of it helped stabilize the economy and restore confidence in the country.

REFERENCES

Franklin D. Roosevelt, First Fireside Chat, March 12, 1933, Miller Center, Retrieved from millercenter.org

ATTRIBUTIONS

TERMS TO KNOW

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