5 Myths about the Great Depression and New Deal

This year marks the 85th anniversary of the New Deal, the controversial set of programs, public works, and economic reforms that President Franklin Delano Roosevelt undertook to combat America's Great Depression. Historians commonly contend that the New Deal was pivotal in beating the Great Depression and protecting the American middle class. But how significant was it, actually?

Although plenty of agencies and reforms remain intact, there is much more to the story than meets the eye, as in most popular accounts of polarizing events. Here are five myths concerning the New Deal and the Great Depression:

1. Hoover's "Free-Market" Policies Led to the Great Depression.

FDR's predecessor Herbert Hoover usually gets the blame for not doing enough to battle the great downturn that emerged after the Stock Market Crash of 1929. Although Hoover nominally supported free markets, his political actions told a different story.

In many ways, Hoover's response to the 1929 crash laid the foundations for the New Deal. Rexford Tugwell, one of FDR's key advisors and an integral member of his Brain Trust, admitted that "practically the whole New Deal was extrapolated from programs that Hoover started."

Hoover's economic agenda included the following:

- the creation of the Federal Farm Board (FFB), whereby government corporations purchased farm products to address falling crop prices;

- the establishment of the Reconstruction Finance Corporation to hand out emergency low-interest loans to businesses nationwide;
- signing the Smoot-Hawley Act into law, which raised tariffs on over 20,000 goods, increasing the average rate to roughly 40 percent and provoking a massive trade war.

Contrary to conventional wisdom, Hoover's interventionist streak turned the initial recession into a full-fledged depression.

2. The New Deal Got the United States out of the Great Depression

The typical American history class has spread the notion that the New Deal was crucial to rein in the Great Depression. Although this assertion remains strong among the intelligentsia and general populace, it does not hold up to scrutiny of economic performance during that time.

While politically popular in areas where FDR performed poorly in elections, his Alphabet Soup of government agencies and programs did not even put a dent in the recession. In fact, the New Deal exacerbated and prolonged it.

Economist Stephen Moore provides a clear depiction of the New Deal, one where the United States was still stuck in the economic doldrums. During this period, the average unemployment rate hovered around 18 percent, and American industrial production and national income fell almost by one third. It wasn't until the end of World War II that the US economy finally rebounded.

3. The New Deal Was All about Helping the Poor

As mentioned before, the New Deal was popular among the working class, but the intentions behind it were based on cold political calculations.

In *The Roosevelt Myth*, journalist John T. Flynn illustrates out how most New Deal programs targeted areas where FDR had electoral hiccups. Programs like the Work Projects Administration (WPA) and the Civilian Conservation Corps played a key role in buying votes in areas where FDR struggled to attain electoral support.

In reality, these programs were bureaucratic boondoggles that fostered dependency and lengthened the Great Depression by diverting resources away from the productive sector.

4. World War II Got the United States Out of the Great Depression

Thanks to the rise of new scholarship, more individuals have come to the realization that the New Deal did not end the Great Depression. Unfortunately, many individuals who acknowledge this unpopular truth fall for another long-standing myth—that World War II got the United States out of the Great Depression.

In the *Politically Incorrect Guide to American History*, historian Tom Woods explains how considerable capital was diverted toward the production of military equipment to support the war effort. Under normal economic circumstances, these resources would have been used for the production of goods that consumers demanded. Even though military conscription resolved the lingering unemployment problem, the average American was still impoverished due to the vastly diminished capital stock.

If war were truly the answer to economic crises, countries should wage perpetual wars. However, economist Ludwig von Mises put it succinctly that “war prosperity is like the prosperity that an earthquake or a plague brings.”

Shortly after World War II, the private sector finally got breathing room when the top marginal taxes were reduced from 94 to 82 percent and the excess-profits tax was repealed. Ultimately, it was the government’s fiscal constraint and its steps to return to a business-friendly environment that allowed the United States to exit the Great Depression.

5. The New Deal Helped Blacks

Never shying away from an opportunity to insert race relations into every political debate, progressives are quick to point out how the New Deal benefited blacks. But careful inspection actually shows that it turned out to be a raw deal for them.

The infamous Wagner Act of 1935, which made labor-union monopolies legal, gave established unions major leeway in excluding low-wage laborers. At the time, the most powerful labor unions discriminated against blacks. With the full power of the state on their side, white-dominated labor unions received artificially higher wages that were not available to non-union black workers willing to work at lower wages.

In the same vein, the National Industrial Recovery Act of 1933 gave the executive branch the power to establish industrial cartels that restricted output and set minimum-wage policies. As a result, approximately 500,000 blacks, especially in the South, were cast out of the labor force due to the non-market wages.

Lessons Learned

The role history plays in policymaking cannot be overstated. Those who to choose to ignore it are condemned to repeat the same errors of the past.

Most of the policy blunders we see today are an outgrowth of New Deal interventionism. If history doesn't repeat itself, it at least rhymes. For sound economic policymaking to become the norm in intellectual and political circles, historians and policymakers alike must put the mythology of the New Deal to rest once and for all.

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