

# The Great Depression and the New Deal

## Section 10.5 The Second New Deal



### Pre-View 10.5

- **The Second New Deal** – additional New Deal legislation beginning in 1935 and aimed more toward reform
- **Deficit spending** – the government practice of spending more money than is collected from taxes and other sources
- **Court Packing Bill** – legislation proposed by FDR to add more justices (who would be more favorable to his New Deal legislation) to the Supreme Court
- **Keynesian economics** – the idea that the government should spend money during a recession to stimulate the economy even if the government has to borrow the money and repay it when the economy improves
- **Roosevelt Recession** – another slowdown in the economy caused when the President stopped spending so much on relief programs in 1938
- **Rural Electrification Administration (REA)** – the agency created to bring electricity to the rural areas of the country
- **Sit-down strike** – a strike where workers sit down and occupy the factory rather than walking out to man picket lines

By 1935 the economy was improving, but some of the New Deal programs were running into trouble in the courts. The Supreme Court declared several programs unconstitutional, including the AAA and the NRA. In response, FDR initiated a new round of programs sometimes called the **Second New Deal**. Some of these programs were aimed at the “abuses of big businesses,” as FDR called it. Others were more permanent reforms to protect citizens and help ensure that a collapse in the economy this bad never happened again.

### Second New Deal Legislation and Programs

LEGISLATION OR PROGRAM	DATE	INITIALS	DESCRIPTION
<b>Works Progress Administration or Work Projects Administration</b>	1935	WPA	The WPA was an agency that employed millions for public works projects. The WPA also included creative projects to employ artists, writers, and actors in decorating public buildings, preserving local histories, and providing public performances.
<b>Social Security Act</b>	1935	SSA	This Act provided pensions for the elderly, unemployment insurance, and aid to dependents and the disabled. Social Security benefits were to be financed by a tax on both employees and employers. The SSA signaled a change in how the government viewed its responsibility to the needy citizens of our nation.
<b>National Labor Relations Act or The Wagner Act</b>	1935	NLRA	This Act guaranteed the right to unionize and to bargain collectively. It also created the <i>National Labor Relations Board</i> to supervise union elections and hear complaints of unfair labor practices.
<b>Fair Labor Standards Act</b>	1938	FLSA	This Act forbade child labor, limited dangerous jobs to workers 18 years of age or older, established a minimum wage, and set the work week at forty hours.

### The Banking Act of 1935

Another important piece of legislation was the Banking Act of 1935. As authorized in the 1933 Banking Act, the FDIC was a temporary measure to assure depositors that their money was safe in federally insured banks. The Banking Act of 1935 made that insurance program permanent and raised the insured limit to \$5,000. The Banking Act of 1935 also

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made changes to the organizational structure and authority of the Federal Reserve System by creating a way for the “Fed” (a nickname for the Federal Reserve System) to control interest rates nationally and to control the money supply. The FDIC still insures deposits today, and the limit has continued to be increased over time.

### Critics of the New Deal

Even though the economy was improving, the New Deal’s massive relief programs were taking a toll on the U.S. Treasury. The cost of the programs was more than the government was taking in. When the government spends more than it takes in, it’s called **deficit spending**. Even though FDR wasn’t happy with budget deficits, he knew that in order to bring relief to the American people, deficits would be needed in the short term.

*Our policy is succeeding. The figures prove it. Secure in the knowledge that steadily decreasing deficits will turn in time into steadily increasing surpluses, and that it is the deficit of today which is making possible the surplus of tomorrow, let us pursue the course we have mapped.*

**Franklin D. Roosevelt**  
**Budget Speech, 1936**

Criticism of the New Deal came from all sides. Some, like the Republicans and Big Business, believed that the President was taking his relief and reform measures too far. Others believed he and the government weren’t doing enough. Members of the upper class, of whom FDR was a member, criticized him for betraying his class by raising taxes on the wealthy to help pay for relief programs. Industrialists were angry with FDR’s support of organized labor and the government having so much control of the economy. Here’s a summary of some of the more outspoken critics.

#### New Deal Critics

- A Roman Catholic priest *Charles Coughlin*, who had supported the New Deal, now criticized FDR’s administration for not doing enough to bring about social justice. He advocated the nationalization of the banking system. Coughlin voiced his ideas on his extremely popular radio show that was more political than spiritual.
- The radical governor of Louisiana *Huey Long* didn’t think FDR was doing enough to redistribute the wealth. This socialist politician had his own “Share Our Wealth” plan to take money from the rich and give to the poor. Long might have challenged FDR in the 1936 election had he not been killed in an assassination attempt in 1935.
- Frances Townsend; a doctor from Washington state, also didn’t think the government was doing enough. He wanted to give the elderly a \$200 per month pension. The elderly would then be required to spend the money within 30 days each month to stimulate the economy.

### The Supreme Court

In 1935 the New Deal picked up an even more powerful critic, the Supreme Court. Conservative judges of the court ruled five New Deal laws unconstitutional, including parts of the National Recovery Administration (NRA) and the Agricultural Adjustment Act (AAA). In *Schechter v. U.S.*, the court ruled that the NIRA (the act that created the NRA) was unconstitutional because of “separation of powers.” According to the ruling, the President had assumed powers belonging to the Congress. And in *United States v. Butler*, the court ruled that the AAA was unconstitutional because it taxed one group to the benefit of another. By 1936 four more rulings went against the President’s plan.

After FDR won re-election in 1936 by a greater margin than in 1932, he became even more determined to continue his New Deal programs because the people supported them. In 1937 FDR devised a plan to deal with the Supreme Court. He proposed a bill that would add more justices to the court. His critics called it the **Court Packing Bill**. His plan was to add a judge to the Court for every existing judge who was over 70 years old. Since six of the nine judges were over 70 at the time, he could have added six new judges who were favorable to his legislation.

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The bill was defeated in the Congress. Many from his own party failed to support the measure. After the failed plan, two things happened. First, the Supreme Court began to uphold New Deal programs as legal. Second, FDR began to lose support in Congress for the New Deal, even from Democrats.

#### **Question 1: What was FDR thinking? Wasn't the number of Supreme Court Justices set by the Constitution?**

Actually, the Constitution doesn't say how many justices there should be. It only mentions a Chief Justice but doesn't say how many associate justices the court should have. The current size of the Court (1 Chief Justice and 8 associate justices) was established by the Judiciary Act of 1869.

If FDR had gotten Congress to pass this bill, he could have added more associate justices to the Court. Although it may have been an intellectually smart idea, it was a real political blunder that cost FDR much of the support he needed to get further New Deal legislation through the Congress.

#### **Question 2: What did FDR do about his New Deal programs that had been declared unconstitutional?**

He simply removed the unconstitutional parts and sent them back to Congress, or he proposed new legislation to do what he wanted in a different way.

#### **Question 3: How did an Alabama native help FDR's Supreme Court situation?**

Although the Court had begun to look more favorably at New Deal programs, one of the conservative justices decided to retire in May 1937. FDR promptly appointed a more liberal justice, Hugo Black from Alabama, to replace him. The balance in the court had now shifted from conservative to more liberal.

### **Keynesian Economics**

John Maynard Keynes was a British economist who began to question the traditional ideas of economics after World War I. He contended that a *laissez-faire* (an unregulated) economy would not always provide enough jobs for people who want to work. Keynes believed that when people start saving more money than they spend, the economy gets out of balance and businesses start laying off workers because demand (spending) is less. Keynes recommended that the government step in when there is a slowdown in the economy and replace the private spending with public spending of some kind. If necessary, the government should borrow money to finance government spending and pay it back when the economy improves.

Roosevelt was influenced by the ideas of Keynes known as **Keynesian economics**. Much of FDR's early policy was based on the idea of government spending money to get the economy going. Much of his relief effort was based on the concept of "priming the pump," or government spending, even if it meant spending more than the government was taking in (deficit spending) and borrowing the rest.

Even Keynes believed that his solution was a short-term one. As the economy improved, the government needed to stop spending as much or else prices would begin to rise too quickly (causing inflation). But once governments start putting money into the economy, it is hard for them to stop without damaging economic growth. The Keynesian Economic model was a radical departure from the classical economic principles of Adam Smith in which the government exerted very little influence on the economy (*a laissez-faire* philosophy). The Keynesian model moved the United States toward a "managed capitalism" in which the government takes a key role in setting economic policy.

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#### Rural Electrification

By the 1930s, upwards of 90% of city dwellers had access to electricity while only 10% of rural populations could get electrical service. Without electricity, farm life was difficult, and the simplest of chores were very time-consuming. On the heels of creating the TVA, Congress passed the Rural Electrification Act of 1936 to bring electricity to rural customers. The problem was that private utilities did not want to bear the expense of stringing transmission lines into sparsely populated rural areas. Farmers were expected to pay almost all the expense to get electrical lines to their farms, and they could not afford to do so.

#### The First TVA City

While the national average for rural electrification stood at 10%, the state of Mississippi was closer to 3%, the lowest in the nation. Because of its close proximity to the Muscle Shoals generating facility, Tupelo, Mississippi, became the first project in electrification for the Tennessee Valley Authority. Tupelo was known as the “First TVA City.” Tupelo, however, was a city. The question remained as to how best to provide electrical power to more rural areas.

#### The Corinth Experiment

Perhaps borrowing a page from the Populist Movement’s play book, officials decided that cooperatives, owned by its members, would be a good way to bring electricity to rural America. Before the electric cooperative plan became a national effort, officials chose Alcorn County as a test site for the new cooperative system. Early in 1934, the Alcorn County Electric Power Association (ACEPA) was formed as the first electric cooperative in the nation. This first attempt at rural electrification in Northern Mississippi was known as the *Corinth Experiment*. This early success in Alcorn County paved the way for the **Rural Electrification Administration (REA)**, a federal bureau created by executive order and given the weight of law by the Rural Electrification Act of 1936 to loan money to electric cooperatives and others to electrify rural America.

*The [REA] Administrator is authorized and empowered . . . to make loans to persons, corporations, States, Territories, and subdivisions and agencies thereof, municipalities, peoples utility districts and cooperative nonprofit, or limited-dividend associations . . . for the general purpose of financing the construction and operation of generating plants, electric transmission and distribution lines or systems for the furnishing of electric energy to persons in rural areas who are not receiving central station service . . .*

**Rural Electrification Act of 1936  
Section 4**

#### **Example 1:** How did the TVA and the Rural Electrification Administration impact rural areas across the South?

- A. They forced private electrical companies to “electrify” rural areas.
- B. They did little to improve economic and social conditions in the South.
- C. They provided low cost loans and cheap electricity to cooperatives that brought electricity to rural areas.
- D. They nationalized electrical power companies to distribute electrical power to rural America.

The REA did not force private companies to provide electrical power to rural areas, so the answer is not A. Rural electrification had a tremendous influence to improve economic and social conditions, so B is not true. Nationalizing private companies means that the government takes over and runs the business for the good of the public; the answer is not D. The REA provided the low cost loans and the TVA provided low cost power to bring electricity to rural areas; the answer is C.

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### Social Security Administration

Perhaps the most far-reaching legislation of the Second New Deal was the Social Security Act of 1935, which created the Social Security Administration (SSA). The idea was to provide an old-age pension that began at age 65, to provide survivors benefits to families when a spouse had died, and to provide for the blind and the disabled who could not work. The SSA was also authorized to provide for victims of workplace accidents and to provide some unemployment benefits. To fund the SSA, a payroll tax was placed on both employers and employees. The employees paid a tax on wages while the employers paid a tax on their payrolls. The law also established a system of aid to states for assistance to the poor and unemployed.

As a way for the Social Security Administration to control this massive program, a system of identifying numbers was put into place, the *Social Security number*. The Social Security Act is constantly being amended to provide more benefits, to cover more people, and to raise the tax rates paid into the system. This piece of social welfare legislation affected more people than any other New Deal legislation passed, and it signaled a new direction in the government's involvement in social welfare. For the first time in history, the federal government assumed the responsibility for the care of the aged, the disabled, and the unemployed.

### Practice 2

Answer the following questions about FDR's Second New Deal programs.

- (A) (B) (C) (D) 1. What effect did the Corinth Experiment have on rural America?

  - Its failure caused the TVA to focus on Appalachia rather than on northern Mississippi.
  - Its success furthered the cause of conservation in American farming.
  - Its failure delayed rural electrification.
  - Its success helped to bring electricity to rural areas.
- (F) (G) (H) (J) 2. Which federal program had a significant impact on rural areas?

F. REA                      G. SSA                      H. NLRB                      J. WPA
- (A) (B) (C) (D) 3. Whom did the NLRA, also called the Wagner Act, help the most?

  - factory owners
  - labor unions
  - the railroad industry
  - the elderly
- (F) (G) (H) (J) 4. Why was the sit-down strike so effective as a union bargaining tool?

  - It prevented the company from using strike-breakers to continue production during a strike.
  - It slowed production just enough to annoy management into settling the strike.
  - It gained media attention, which helped strikers gain popular support for their cause.
  - It inspired other workers to join the union.
- (A) (B) (C) (D) 5. How did the Social Security Act signal a change in the federal government policy toward social welfare?

  - When the Supreme Court declared the act unconstitutional, the government backed away from social welfare programs.
  - The government declined to act on behalf of social welfare programs.
  - The government shifted the responsibility for social welfare to the states.
  - The government assumed the responsibility for the poor and needy.