

The New Deal

Quick Summary

In the 1920s, the economy boomed and business flourished, but the majority of Americans were left behind. Then the economy fell into crisis of the Depression. The Roosevelt administration considered British economist John Maynard Keynes's macroeconomic theory that government needed to spend money to get the economy back on track and tried to pursue it in a half-hearted fashion. It succeeded in stabilizing the economy and helping those most in need by enacting a comprehensive set of labor market and labor relations policy reforms.

The New Deal labor legislation created unemployment insurance, social security retirement and disability pensions, minimum wages, and regulation of hours through overtime premiums beyond forty hours per week. Finally, but perhaps most importantly for the longer run, it created a labor relations law and policy that both enabled workers to join and sustain unions that were capable of bargaining for wages, hours, and working conditions and a set of policies for resolving labor-management disputes. (See Box 2-1 for a summary.) These achievements laid the foundation for a new social contract for the American economy and work force. But they were not enough to usher that new social contract in. It took a set of actions on the part of workers, employers, unions, and government policy makers to build on this foundation during and after World War II. The result of the New Deal foundation and the collective actions that built on it was a postwar social contract that worked well for most parties (less well for women and minorities than for men) for three decades—a period that in hindsight looks like a golden era for the American economy.

Let's look in more detail at how this all happened.

Box 2-1

The New Deal Foundations

Four Pillars of The New Deal Labor Policy	What They Did
Unemployment Insurance	Provided income to unemployed workers for a temporary period of time with the expectation they would either be rehired or find a new job as economic conditions improved.
Social Security and Disability Insurance	Provided retirement benefits to employees who meet a minimum number of years worked and benefits to workers who become disabled and unable to work.
National Labor Relations Act	Protected the right of workers to form independent unions and engage in collective bargaining
Fair Labor Standards Act	Established a national minimum wage and overtime pay requirements for a work week of more than 40 hours.

The New Deal

Imagine it is 1930 and you are about to finish school and enter the labor force. What is going through your mind?

You came of age in the roaring 20s when the economy was booming. President Calvin Coolidge told you the “business of the country is business,” and the booming stock market proved his point. But somehow you don’t feel so optimistic. Your family shared only a little bit of the growth in the mid-1920s (wages went up about 8 to 10 percent, but the giant portion of the gains went to the top 10 percent of the population). And whatever income gains your family made were quickly wiped out by the events following Black Tuesday in October 1929, the day the stock market crashed. By the end of 1930, real wages for average workers were no higher than they had been a decade earlier. Unemployment was 10 percent and rising rapidly. If your family was part of the 13 percent of the population that lived and worked on a farm, you were in even worse shape: You had steadily lost income throughout the 1920s even in the face of the business boom.

And then came the Great Depression. At its worst, 25 percent of the work force was unemployed. Homelessness grew to the point that a name was invented to describe the communities of shanties homeless people created with anything they could find: Hoovervilles. The point was clear:

President Hoover was doing too little to combat the Depression. Farming families in Texas and Oklahoma who could no longer cope with the combination of the depression and years of drought began the trek westward toward the promise of a better life in California that motivated John Steinbeck's *Grapes of Wrath*. It all looked quite hopeless, and in fact, to those who valued our American way of life and political system, it looked quite dangerous. Radical insurrection seemed just around the corner!

Losing a job was disastrous in the 1920s and 1930s. There was no unemployment insurance and no health insurance. Keeping your job likely meant a cut in wages and work hours. One report indicated that by 1933 nine out of ten companies had cut wages, 60 percent of the work force was working part time, and family income had dropped by 40 percent.¹

That combination of frustration and desire for change led to political change. After the Republicans had controlled the White House for ten years, Democrat Franklin D. Roosevelt was elected. He ushered in what would become known as the New Deal.

While Roosevelt didn't come into office with a clear agenda for change, at least one of his advisors did. Frances Perkins famously warned the new president that if he chose her to be his Secretary of Labor she would press for legislation to provide unemployment insurance, a national minimum wage, and a program of retirement insurance and disability insurance. (See Box 2-2)

Box 2-2

Frances Perkins's Vision and Agenda

Roosevelt came right to the point. "I've been thinking things over and I've decided I want you to be Secretary of Labor."

Since the call from his secretary, I had been going over arguments to convince him that he should not appoint me. . . . I said that if I accepted the position of Secretary of Labor I should want to do a great deal. I outlined a program of labor legislation and economic improvement. None of it was radical. It had all been tried in certain states and foreign countries. But I thought that Roosevelt might consider it too ambitious to be undertaken when the United States was deep in depression and unemployment.

In broad terms, I proposed immediate federal aid to the states for direct unemployment relief, an extensive program of public works, a study and an approach to the establishment by federal law of minimum wages, maximum hours, true unemployment and old-age insurance, abolition of child labor, and the creation of a federal employment service.

The program received Roosevelt's hearty endorsement, and he told me he want me to carry it out.

¹ https://web.archive.org/web/20131205173514/http://www.digitalhistory.uh.edu/learning_history/children_depression/depression_children_menu.cfm.

Source: Frances Perkins, *The Roosevelt I Knew* (New York: Viking Press, 1946).

Where did her ideas come from? She didn't make them up. This brings us to our first lesson that can inform efforts to build a new social contract going forward.

All innovations are local. Most of our federal labor and social legislation was first conceived, incubated, and tested at the state level and/or in private-sector settings.

Frances Perkins knew first-hand that there had been a good deal of experimentation with these programs in progressive states such as Wisconsin, New York (where Perkins had been commissioner of the state department of labor when Roosevelt was governor), and Massachusetts. Many of these programs were first developed by academics from the University of Wisconsin under the tutelage of Professor John R. Commons. He earned the title of "Father of the New Deal," since many of his ideas, carried forward by his students, found their way to Washington in the Roosevelt administration.

Consider, for example, how unemployment insurance and Social Security came into being. This is how historian Arthur Schlesinger Jr. told the story. Shortly after taking office, President Roosevelt gave his Secretary of Labor, Frances Perkins, the green light to go to work on the agenda she had laid out for him prior to accepting his offer to become, as she was later called, "Madame Secretary." She went to work on the idea of creating an unemployment insurance system by drawing heavily on experts from Wisconsin who had worked with John R. Commons to first propose an "experienced-based" state system in 1921. Commons' students Paul Raushenbush and Elizabeth Brandeis Raushenbush (the daughter of Supreme Court Justice Louis Brandeis), University of Wisconsin professor Edwin Witte, and Arthur Altmeyer developed a plan that called for state-level administration of unemployment insurance funded through a payroll tax that was pro-rated based on the level of unemployment a firm experienced. After considerable debate over the technical details of this approach, the Roosevelt team adopted it and the president endorsed it.

In parallel, another group tackled the broader question of how to create an old-age insurance system and some means of providing for the families of workers who died or became permanently disabled. The president had already expressed his views to Madame Secretary on this issue. According to Schlesinger, Roosevelt said to Frances Perkins: "I see no reason why every child, from the day he is born, should not be a member of the social security system. . . . From the cradle to the grave they ought be in a social insurance system." He went on to describe his views on how this insurance system should be financed: "If I have anything to say about it, it will be contributed . . . both on the part of the employer and the employee, on a sound actuarial basis. It means no money out of the Treasury."²

² Arthur M. Schlesinger Jr., *The Age of Roosevelt: The Coming of the New Deal, 1933–1935*, vol. 2 (Boston: Houghton, Mifflin, 1958), 308.

The rest is history. In January 1935, Roosevelt’s social security and unemployment insurance bill was submitted to Congress. It was hotly debated, often in terms that should sound quite familiar to those who have followed the debates over “Obamacare.”

A leading business group, the National Industrial Conference Board said: “Unemployment insurance cannot be placed on a sound financial basis. It will facilitate “ultimate socialist control of life and industry.” Alfred Sloan of General Motors said “The dangers are manifest.” The new bill would undermine the American way of life by “destroying initiative, discouraging thrift, and stifling individual responsibility.”³ Republicans in Congress such as Representative John Taber of New York channeled these views:

Never in the history of the world has any measure been brought in here to insidiously designed as to prevent business recovery, to enslave workers, and to present any possibility of the employers providing work for the people “The lash of the dictator will be felt and twenty-five million free American citizens will for the first time submit themselves to a fingerprint test.”⁴

In the end, after a long debate and a number of amendments the Social Security Act of 1935 was enacted. It provided unemployment insurance, old age insurance, and disability insurance programs. Little did these policy makers or their supporters and critics in Congress know that some fifty years later Republicans and Democrats alike would describe Social Security as the “third rail” of politics that was never to be touched.

If this social legislation was controversial, consider the most difficult of all parts of the New Deal to be enacted—legislation to protect workers’ rights to join a union and engage in collective bargaining over their wages, hours, and working conditions.

This was not one of the pieces of legislation Roosevelt or his cabinet members initiated or even initially supported. Instead, its chief sponsor was Senator Robert Wagner of New York. The “Wagner Act” (formally the National Labor Relations Act), passed in 1935, shared two similarities with other parts of the New Deal: It built on local-level innovations, in this case in the private-sector clothing, coal, and railroads industries, and it was informed by the work of labor economists and historians who had studied and help guide collective bargaining programs in the era before the New Deal.

The final plank of the New Deal labor legislation, the Fair Labor Standards Act of 1938, instituted the nation’s first minimum wage (\$.25 per hour), required employers to pay overtime for a work week of more than 44 hours (later lowered to 40 hours), and abolished most child labor. President Roosevelt strongly supported this legislation, which Secretary Perkins and her staff at the Department of Labor had developed. Business strongly opposed it. Labor leaders were lukewarm in their support, fearing in part that government-mandated minimum wages would undermine unions and collective bargaining.

³ Schlesinger, *The Age of Roosevelt: The Coming of the New Deal, 1933–1935*, 2:311.

⁴ Schlesinger, *The Age of Roosevelt: The Coming of the New Deal, 1933–1935*, 2:311.

Secretary Perkins's staff developed parallel laws that required government contractors and employers in government-financed construction projects to pay "prevailing wages"; these laws were also enacted.⁵

What can we learn from this experience that would help inform where we need to go? I believe the key lesson to take away from this New Deal history is that if we are to go beyond the divided policies that are always associated with labor legislation in the United States, the following elements must be in place: a strong policy champion, a government department staffed with employees who can provide deep analysis of labor issues, and access to the expertise created by academics who have helped invent the private and state-level innovations that provide the evidence that proposed policies work.

⁵ See Jonathan Grossman, "Fair Labor Standards Act of 1938: Maximum Struggle for a Minimum Wage," *Monthly Labor Review* (June 1978), <http://www.dol.gov/dol/aboutdol/history/flsa1938.htm>.

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