

New Deal & Economy

New Deal & Economy

- Banks & Credit
- Federal Spending
- Money
- Taxation
- Industry
- Stock Market

New Deal and the Banks

Bank Crisis

- 1931-32
- 2,000 banks failed
- Assets - \$1.7 billion
- March 1933
 - 38 states closed banks
 - NY Stock Exchange closed
 - Chicago Board of Trade closed

Banking

- Five day bank holiday
- Emergency Banking Act (March '33)
 - Drafted by Hoover's Treasury Dept
 - Assistance to private bankers
- Federal Deposit Insurance Corp
 - June 1933
 - Accepted by FDR

It IS a New Deal



Cartoon by Talburt in the Pittsburgh Press

Emergency Banking Act of 1933

- Authorized RFC to
 - Evaluate banks
 - Sound banks to reopen
 - Unsound banks closed
 - Buy bank stock
- Authorized Federal Reserve bank notes

Reconstruction Finance Corp.

- Hoover:
 - Voluntary bankers' pools
- RFC: next step
- Loans to insolvent banks
- \$2 billion thru 1932

Glass-Steagall Act of 1933

- Enacted - June 1933
- Separate commercial & investment banking
- Established FDIC

Federal Deposit Insurance Corp.

- Opposed by FDR & Eastern banks
- Supported by John Nance Garner & Jesse Jones
- Based on Texas program
- Original limit: \$2,500
- Banks to sell preferred stock to RFC

Banking Act of 1935

- Federal Reserve control of monetary policy
- Greater govt control of Federal Reserve

Jesse Jones

- Born Tenn. 1874
- Lumber & banking
- Houston Ship Canal
- Wilson Dem.
- Anti-Wall Street
- Dem Fin. Dir. 24-28

QuickTime™ and a
decompressor
are needed to see this picture.

RFC under FDR

- “Government Bank”
- Loans to
 - Railroads
 - Management oversight
 - Limits on salaries
 - NYC & Chicago
 - Bonneville Power Authority

RFC Subsidiaries

- Export-Import Bank
- Federal National Mortgage Association
- Electric Home and Farm Authority
- Commodity Credit Corporation

RFC Controversy

- High interest rates
 - Not compete with private banks
- Careful lending
- Insufficient?
- Private banks & corporations too timid?
- More expansion needed?

Banks & Credit

- Rescued banking system
- Expanded credit
- Enough?

New Deal and Federal Spending

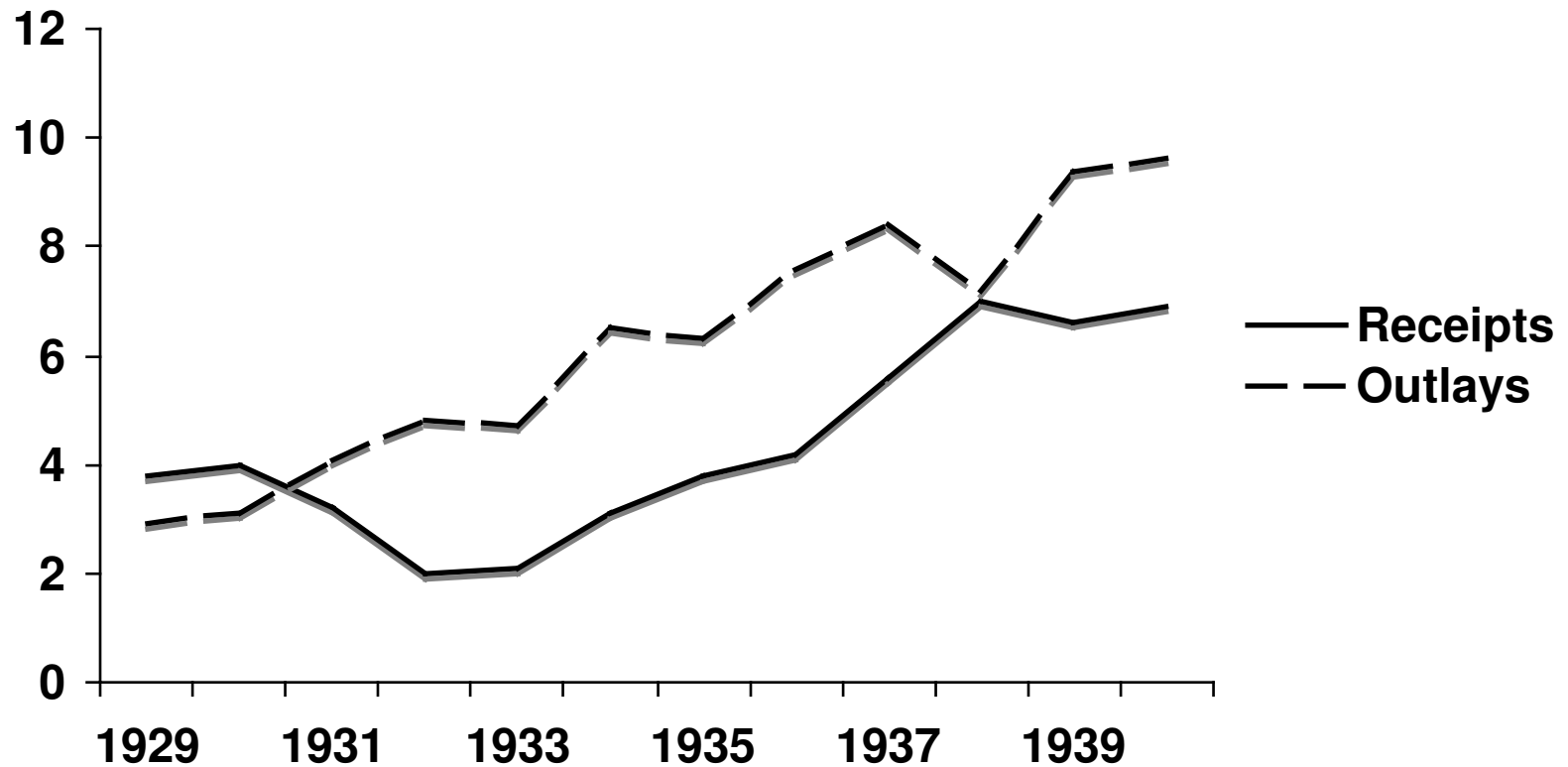
FDR & Federal Budget

- Believed in balanced budgets
- Willing to incur temporary deficit for relief
- Unimpressed by J.M. Keynes
- Tried to balance budget in 1938
- Joined with Congress to cut domestic spending 1939 & 40

Economy Act of 1933

- Cut \$500 million over three years
 - \$400 million from veterans payments
 - \$100 million from Federal salaries
- FDR: govt on road to bankruptcy
- Opposed by House Dem. Caucus
- Passed by GOP & conservative Dems

Federal Budget 1929-1940



Federal Deficits

- 1932 (Hoover) : -\$2.8 billion
- 1933-1940: average -\$2.5 billion
- High: 1934 & 1935: -\$3.5 billion
- Low: 1938: -\$0.2 billion



"Every time he reads about New Deal spending, he hits the ceiling."

New Deal & Money

Inflationists

- Populist & W.J. Bryan issue
- Increase money supply
 - Back currency with silver
- Strong opposition
 - Neo-classical economics
 - Wall Street/banks

London Economic Conference

- June 1933
- Intended to stabilize currencies
- FDR: Domestic recovery more important than currency's value

Gold Standard

- Britain left gold standard Sept. 1931
- Dollar overvalued, compared with pound

FDR Sets Gold Prices

- October 1933 -- January 1934
- FDR sets daily price of gold
- High, but changing prices
- Little or no impact

Thomas Amendment

- Sen. Elmer Thomas (Dem - OK)
- Emergency Farm Mortgage Act
- Allow executive to
 - monetize silver,
 - issue greenbacks or
 - reduce gold content by 50%
- Blocked mandatory monetization of silver

Gold Reserve Act

- Enacted January 1934
- Set price of gold at \$35/ounce
- 40% devaluation

Silver Purchase Act

- Enacted June 1934
- Mandated govt purchase of silver
- Artificially high prices
- Silver holdings = $\frac{1}{3}$ of gold holdings

New Deal & Money

- End of Gold Standard
 - Produced inflation
 - Allowed more
- Resisted inflationists
- Other New Deal policies
 - Mixed impact on money supply

New Deal & Taxation

Revenue Act of 1932

- Hoover proposal
- Increased income & corporate taxes
- Top income rate increased from 25% to 63%
- Doubled estate tax

Wealth Tax Proposals

- Introduced June 1935
- “Unjust concentrations of wealth and economic power”
- Inheritance tax
- Gift tax
- Higher income taxes in upper brackets
- Graduated corporate income tax

Wealth Tax Act

- Minimal corporate income tax
- Limited estate tax
- Revenue gain: \$250 million

Undistributed Profits Tax

- Enacted 1936
- Compel companies to distribute profits
- Investors could reinvest
- Unfocused?
- Undermine business confidence?
- Diminish capacity to reinvest
- Repealed 1939

Impact of New Deal Tax Policy

- Retained Hoover's tax structure
 - Considered a mistake by many
- Few new tax proposals
- Incitements to business opposition
- Not serious reform proposals

New Deal & Industry

Crisis in Industry

- Early 1932
 - 2,000 businesses failed/month
- Early 1933
 - 3,500 businesses failed/month

Economic Recovery

- FDR: No planned legislation
- Proposed legislation
 - Senator Hugo Black (Dem - Ala)
 - Limit work to 6hr/day & 5day/week
 - No minimum wage
 - No executive discretion

Origins of FDR's Program

- FDR: block Congressional proposals
- Multiple authors including:
 - Hugh Johnson
 - Robert Wagner
 - Rexford Tugwell
 - Lewis Douglas
 - Raymond Moley
- FDR: Bring me legislation you agree on

Trade Associations

- Business interests recognized potential value of regulation
- Reacted negatively to large govt role during WWI
- Commerce Secretary Hoover encouraged trade associations
- “Business self-government”

National Industrial Recovery Act

- Authorized National Recovery Administration (NRA)
- Executive discretion
- Possible approaches
 - National planning
 - Business/govt cooperation
 - Anti-trust
- Business-oriented
- Inducements for organized labor
 - Wage & hours legislation

Hugh Johnson



- Born Kansas 1882
- USMA 1903
- Villa expedition
- WWI - Purchasing & Supply
- Failed businessman
- Barnard Baruch protege

NIRA “Philosophy”

- Market; chaotic & irrational
- Introduce rational planning
- Stabilize prices
- Restore balance to economy
 - Restore prosperity
 - Increase employment

NIRA in Operation

- Industry codes
 - 10 codes by September 1933
 - Negotiated with businesses
 - Fixed prices
 - Set working conditions
 - Hours/Wages
 - Working conditions
 - Child labor
 - Larger version of Hoover's voluntary efforts

NRA Publicity Campaign

- Summer 1933
- Organized by Hugh Johnson
- Parades
- Propaganda
- “Blue Eagle”

NRA Banner



NRA Poster



Control of NRA Codes

- Dominated by large corporations
- Representation on code authorities
 - <10% had labor representatives
 - < 2% had consumer representatives

Fate of NIRA

- Hugh Johnson forced out by FDR (1934)
- Criticism from many quarters
- Perceived need for recovery program
- 2/35 - FDR proposed 2-year extension
- 5/35 - Supreme Court ruled NIRA “unconstitutional delegation of legislative authority”

NIRA Impact

- Short term improvements
 - Increased inventories before higher wages
 - Improved confidence
- Higher prices
 - Reduced production
- Prices increased more than wages
- Perceived as chaotic, unfocused
- Failed to spur recovery

New Deal & Stock Market

“Pecora” Commission

- Begun April 1932
- Senate Banking Committee
- GOP controlled
- Extended at FDR’s request
- Frederick Pecora (Asst DA NYC) chief counsel

Pecora Commission Findings

- Testimony from key players
 - Richard Whitney (chair NYSE)
 - J.P. Morgan
 - Charles Mitchell (Nat'l City Bank)
- Exposed conflicts of interest & stock manipulations
- Whitney: exchange perfect as is
- Morgan: paid no taxes
- Mitchell: “wash” sale to avoid taxes

Securities Regulation

- Brandeis/Frankfurter school
- Pro-regulation
- “Sunlight is the best disinfectant”
- Key authors
 - Benjamin Cohen
 - Thomas Corcoran
 - James Landis

Securities Act of 1933

- Truth in Securities Act
- Enacted May 1933
- Federal registration of security
- Accurate portrayal of company's condition (full disclosure)
- Civil damages

Securities Exchange Act

- Enacted June 1934
- Established SEC
- Regulate insider trading, margins, roles
- Mandatory provisions discarded
- SEC given discretion

Securities & Exchange Commission

- Joseph P. Kennedy - chairman
 - Alleged stock manipulator
 - Reassured Wall Street
- Other members pro-regulation
 - James Landis
 - Frederick Pecora
 - Reassured reformers

Public Utility Holding Companies

- 13 holding companies controlled 75% of utility operating companies
 - Pyramids of shell companies
 - Inflated profits
 - Stock speculation
 - High prices
- Samuel Insull
- FDR experience in NY

Public Utility Holding Company Act

- Wheeler-Rayburn Act
- Spring 1935
- Registration of holding companies
- “Death sentence”
 - Dissolve companies with no “valid economic purpose”
- Fierce business opposition
- Compromise
 - Holding company one level above operating company

New Deal Securities Legislation

- Limited changes (other than PUHC)
- Aided mainstream firms
- Clarified processes & roles
- Better integrated, sounder utility companies
- Restored confidence in stock market (long term)
- Limited short term impact on recovery