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Was It the New Deal or World War II that brought America out of the Great Depression?

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1. Introduction

October 29, 1929, or "Black Tuesday," marks the day the U.S. stock market crashed, initiating the most severe economic crisis in U.S. history, now known as the Great Depression. By 1933, gross domestic product (GDP) per capita in the U.S. had fallen 47% and the average unemployment rate had risen from 3.2% to 25%. Amid this economic depression, Franklin Delano Roosevelt campaigned for the U.S. presidency on the promise of a "New Deal" for the American people. He won the 1932 election by a landslide and began a series of reforms that helped revitalize the U.S. economy following the Great Depression from 1933-1939. He would then play a key role in the rapid mobilization in World War II. Over 90 years since "Black Tuesday", economists have argued whether it was the New Deal or World War II which lifted the United States out of the Great Depression. Despite this ongoing debate, the public understanding is that it was the New Deal. The stronger argument lies with the economists that believe World War II lifted America out of the Great Depression because the New Deal policies did not stimulate the economy, the war increased production in many business sectors, and the wartime prosperity boosted American confidence in the economy. I will use the following economic parameters to analyze the economic state of the United States during the New Deal and then during World War II: unemployment percentage, gross national product (GNP), gross domestic product (GDP), consumer consumption, personal domestic investment, industrial output, government spending, and consumer confidence.

2. The New Deal Policies Did Not Stimulate the Economy

Upon taking office in 1933, Roosevelt implemented New Deal programs and laws he hoped would stabilize the economy, provide jobs, and financial relief to the American people. In his first 100 days in office, he put into effect many major laws, including the Glass-Steagall Act and the Homeowners Loan Act. He also implemented a number of job creation programs including the Federal Emergency Relief Act (FERA) and the Civilian Conservation Corps (CCC). The most significant piece of legislation, however, was the National Industrial Recovery Act (NIRA). Roosevelt believed economic recovery depended upon cooperation at the expense of competition, and consequently, the NIRA was specifically designed to limit competition while allowing both prices and wages to rise. The act allowed for industries to form a cartel, under the condition these industries would raise wages and allow for collective agreements with workers.

While the economy had somewhat recovered from the Depression during the New Deal Era (1933-1939), it was far too weak for the New Deal policies to be unequivocally deemed successful. In 1933, GDP per capita was 47% below the trend before the crash of 1929, and in 1939, it was 17% below that trend. The unemployment rate in 1933 was at 25% and in 1939, it was at 17% which was still significantly above the pre-Depression rate. In addition, there were less hours worked on average during the New Deal than before Roosevelt took office. Total hours worked, including government employees, dropped 18% per adult between 1930-32, but were even lower during the New Deal (1933-39) at a decrease of 23%. Private hours worked (which excludes government workers) were drastically lower after Roosevelt took office, averaging -27% their 1929 level, compared to -18% between 1930-32.

Some economists believe the Roosevelt government's interventionist policies resulted in a weak economic recovery.

Harold L. Cole and Lee E. Ohanian, two highly-respected economists, argue that the anti-competitive policies of linking collusive practices to higher wage payments made the recovery much worse than it should have been. For them, unemployment remained high because of the increased bargaining power of unionized workers. Ultimately, Cole and Ohanian argue the abandonment of these anti-competitive policies coincided with the strong economic recovery of the 1940s. Philip Harvey argues Roosevelt was more interested in addressing social welfare concerns than creating a Keynesian-style macroeconomic stimulus package. In 1932, Roosevelt deemed the task he faced was, "not discovery or exploitation of natural resources, or necessarily producing more goods," but "the soberer, less dramatic business of administering resources and plants already in hand…of distributing wealth and products more equitably." The New Deal policies implemented by Roosevelt helped establish many programs and institutions that provided Americans with economic security, but with regard to the task of reviving an economy in crisis, the New Deal is considered by many to have been a failure.

3. The War Increased Production in Many Industries

D-Day was an Allied operation, in which Britain and Canada provided much of the equipment and soldiers. Yet even in a battle that took place 100 miles away from England, it is obvious how much the Allied forces' war effort depended on the industrial contribution of the United States. The skies above Normandy buzzed with the bombers of the Eighth Air Force and Ninth Air Force: B-17 Flying Fortresses, B-24 Liberators, and B-26 Marauders, made in Baltimore, San Diego, and Seattle. Many of the GIs who struggled ashore at Omaha Beach owed their lives to the sailors manning the five-inch guns on the fleet of the U.S. Navy's *Gleaves*-class destroyers sitting in shallow waters behind them. Those destroyers had been built during the early months of the war in places such as Norfolk, Newark, and Seattle. At Omaha Beach and elsewhere, soldiers arrived ashore in small landing crafts built in New Orleans. Once they landed, the Allied armies relied on thousands of Sherman tanks, two-and-a-half ton trucks, and jeeps, which were made in Toledo and Detroit. These tanks were transported to Normandy by a fleet of 230 tank landing ships (LSTs), which were constructed in Pittsburgh, Chicago, and Southern Indiana. Most of the fuel for the Army vehicles and the high-octane gasoline guzzled by Allied aircrafts came from the United States. The aluminum and steel used to make planes, ships, tanks, and trucks was provided by the United States. In total, nearly two-thirds of all the munitions used by the Allied forces--including huge numbers of aircrafts, ships, tanks, trucks, rifles, artillery shells, and bombs--were American made. American industry became what President Roosevelt called "the arsenal of democracy," which is a testament to how American production was the backbone of the Allied forces' war effort.

Unprecedented funding for the U.S. defense program resulted in economic expansion at the onset of World War II. The increase of defense output began in the spring of 1940 and continued throughout the war. Before 1940, total federal expenditures for goods and services were below $5.4 billion; in 1941 they were at $16.9 billion, of which nearly $13.8 billion was for national defense. Which is to say, the government was spending two and a half times more for national defense alone than it had for all goods and services in the years preceding 1940. Between 1940 and 1944, U.S. industrial output rose by 90 percent, agricultural production grew by 20 percent, and the total national production of goods and services expanded by 60 percent. The gross national product jumped from $100 billion in 1940 to $214 billion in 1945. This economic growth brought pre-Depression levels of employment and income to Americans. During the Great Depression and New Deal era, unemployment never fell below 14.3%. At the start of World War II in 1941, it dropped to 9.9 percent, and in 1943, the nation returned to near-full employment. Within the federal government alone the number of civilian employees quadrupled from about 950,000 in 1939 to 3.8 million in 1945. Many other industries profited from the demand of the war. The automobile industry boomed as assembly lines were used to produce planes and tanks. The textile industry saw a 25% rise in cloth output due to the demand of Allied soldier uniforms. The gap between real GNP (Gross National Product) and the GNP trend from 1919-1929 (years of economic prosperity) tightened as the war began signifying economic recovery. The levels of production and unemployment during World War II are remarkable in contrast with the stagnant economy during the New Deal era.

4. The Wartime Prosperity Boosted American Confidence In the Economy

The incredible industrial output and unemployment rates were followed by an increase in American confidence in the economy. Stock prices surged and consumer consumption increased due to the growth of wealth through more employment and production, and Americans anticipated that the Allied forces would win the war. In 1945 and 1946, the Standard & Poor's index increased by 37 percent, and the value of all shares on registered exchanges by 92 percent.

Consumer consumption increased significantly toward the end of the war. Americans invested in bigger-ticket items and durable goods (e.g., automobiles and household appliances) which represents greater American consumer confidence. In times of prosperity, consumers are more likely to purchase expensive items. Between 1945 and 1949, Americans purchased 20 million refrigerators, 21.4 million cars, and 5.5 million stoves. The optimism that followed the end of war fueled investments, funding, and spending in technology--shaping advancements in decades to come.

5. Conclusion

The New Deal alleviated conditions caused by the Great Depression; however, Roosevelt's policies did not provide the economic stimulus that the American economy needed. His programs--including the Emergency Banking Bill, the Farm Credit Act, various housing acts, the Social Security Act, and the Wagner Act--assisted the average American but were not sufficient to pull America out of the Depression. World War II stimulated the economy in several ways: existing industries (including textiles, automobiles, and steel) were revived by the demands of war; new industries (including petroleum, chemicals, aviation, and electronics) were given a large boost by government contracts; the demands of war created millions of jobs and provided an economic stimulus to industry in the United States; and lastly, war lifted the American people's confidence in their economy. The general understanding is that the New Deal brought the United States out of the Great Depression, but reconsider the public consensus because the research of many renowned economists suggests that it was World War II.