

# Learning from the New Deal

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**Abstract** This paper argues that the direct job-creation strategy adopted by the New Deal administration of Franklin D. Roosevelt in programs like the WPA (the “New Deal strategy”) is best understood as an effort to secure what the New Dealers came to regard as a human rights entitlement—the right to work—rather than as an economic policy designed to promote the economy’s recovery from the Great Depression. The paper goes on to argue, though, that in fashioning a policy to secure the right to work, the New Dealers unknowingly developed a strategy for delivering a Keynesian fiscal stimulus that is markedly superior to other anti-recession strategies. Unfortunately, neither the New Dealers themselves nor the generation of progressive policy makers that followed them understood the multiple strengths of the New Deal strategy. Consequently, the strategy was permitted to languish, and its potential contribution to public policy in the post World War II era was lost. In an effort to rekindle interest in the New Deal strategy, the paper concludes by pointing out how much more effective the New Deal strategy would have been in combating the so-called Great Recession than the more conventional spending and tax-cut policies the Federal Government actually has deployed. For a fraction of the sum the Federal Government has allocated to stimulate the American economy since the fall of 2008, the New Deal strategy could have immediately reduced the nation’s unemployment rate to pre-recession levels while simultaneously promoting a more rapid recovery in private-sector hiring.

**Keywords** Direct job creation · New deal · Unemployment · Right to work · Human rights

## Introduction

In the late fall and early winter of 2008–09, when the U.S. economy seemed on the verge of a possible meltdown, the example of President Roosevelt’s New Deal was frequently invoked by progressive economists offering advice to then President Elect

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Barack Obama. But what was it about FDR and the New Deal that these commentators thought the Obama administration should emulate? The only clear answer at the time seemed to be the New Deal's boldness. Ironically, though, in the policy debate that attracted the most attention at the time—the design of an economic stimulus plan—these economists expressed a decidedly mixed judgment of the Roosevelt administration's performance. They praised Roosevelt for loosening the federal government's purse strings, but they also criticized him for not spending enough to achieve a complete economic recovery. That did not occur, they noted, until World War II generated a far more massive burst of federal spending. Viewed from this perspective, the New Deal example invoked by progressive commentators was mainly negative. The Obama administration was encouraged to be less timid than the Roosevelt administration in spending money to boost aggregate demand (Krugman 2008a; b; Kuttner 2008a, b; Blim 2008).

Anyone with a passing familiarity with Keynesian economics and the history of the New Deal can appreciate the force of this advice. The stimulus package the Obama administration proposed and Congress enacted in February 2009 does appear in retrospect to have been too small. As the two-year initiative drew to a close at the end of 2010, the nation's unemployment rate was about 1 1/2 percentage points higher than it was when the stimulus was enacted.

Still, this paper makes a different point—that progressive economists overlooked a more important lesson the New Deal can teach us about stimulus economics. That lesson concerns the issue of how stimulus dollars should be spent during a recession rather than how large the stimulus should be. While it undoubtedly is true that the Roosevelt Administration could have achieved a quicker recovery from the Great Depression if it had been willing to run larger budget deficits, the more important lesson progressives should take away from the New Deal experience is that the way stimulus dollars are spent may be more important than the size of the stimulus package.

What the New Dealers showed us is what a progressive fiscal stimulus should look like. How large the stimulus should be is a separate question and one that depends far more than progressive economists have recognized on how the stimulus spending is structured. Indeed, if President Obama and Congressional Democrats had adopted the “New Deal strategy” of direct job creation in responding to the “Great Recession,” they could have driven the unemployment rate down to pre-recession levels almost immediately while providing a larger and more effective fiscal boost to the private sector with a smaller stimulus than the one actually enacted in February 2009. In other words, this paper argues that the problem with the federal government's response to the Great Recession mainly concerns the way stimulus dollars have been spent rather than the size of the stimulus.

#### The new deal response to mass unemployment

The Great Depression was the most severe economic contraction in United States history. In 1929 the country's GDP was \$8389 per capita expressed in 2009 dollars. The average unemployment rate was 3.2%. Four years later, per capita GDP had fallen to \$5975, and the unemployment rate had risen to 25.2%. If only non-farm employees are counted, unemployment rose from 5.3% in 1929 to 36.3% in 1932. In

a total civilian labor force of just over 50 million in 1932, approximately 12 million were jobless (Bureau of the Census 1975, pp. 232, Series 125; 126, Series 1, 9).

Herbert Hoover was President of the United States during the entire 44 month economic contraction that followed the 1929 stock market crash. Despite his reputation today as a diehard conservative, Hoover was not a free-market ideologue. He considered *laissez-faire* a doctrine of the past and believed that public works spending could and should be used to reduce unemployment in periods of economic contraction; however, he argued that the paramount need in responding to the Great Depression was to restore business confidence, and this led him to resist the kind of fiscal policies that could have funded a large public works initiative. Instead, Hoover's response to mass joblessness was to promote businesses expansion while encouraging voluntary action to provide for the relief needs of the population. Consistent with this view, he maintained that the relief challenge could and should be met by self-help initiatives organized at the local level. Hoover expressed his views on this subject in the following terms.

This is not an issue as to whether people shall go hungry or cold in the United States. It is solely a question of the best method by which hunger and cold shall be prevented. It is a question as to whether the American people, on one hand, will maintain the spirit of charity and mutual self- help through voluntary giving and the responsibility of local government, as distinguished, on the other hand, from appropriations of the Federal Treasury for such purposes. . . . The basis of successful relief in national distress is to mobilize and organize the infinite number of agencies of self-help in the community. That has been the American way of relieving distress among our own people, and the country is successfully meeting its problem in the American way today (Charles 1963, 9–10).

State and local governments, along with private relief agencies, did try to respond to the needs of the unemployed, but they were overwhelmed by the magnitude of the task. Total public and private relief expenditures in 120 urban areas (containing approximately one third of the nation's entire population) increased over 700% between 1929 and 1932, from \$43.7 million to \$308.2 million (Geddes 1937, 29–31). In real terms, the increase was even greater, since average prices declined over 20% during the period.

At the same time that claims on relief systems were mushrooming, public resources were shrinking and/or taking a larger bite out of taxpayer income. Real federal tax receipts fell 37% between 1929 and 1932 (Bureau of the Census 1975, 1104, Series Y335–Y338). Since state and local government revenue was derived mainly from taxes on property rather than income and excise taxes, state and local government receipts were more stable, actually increasing in real terms between 1927 and 1932 by 23% (Ibid., 1126, Series Y655 and 224, Series F5); however, this meant the effective state and local tax burden rose dramatically, measured against either personal income or declining real property values. The same forces had an even greater effect on the ability of private charities to raise funds for relief purposes, as evidenced by their declining relative share of all relief spending between 1929 and 1932 (Geddes 1937, 31).

In addition to suffering fiscal strain, the nation's public relief system also was ill-suited to the task of relieving victims of mass unemployment. Public assistance law in the United States prior to the 1930s was based on the English poor law regime. It was

designed to distinguish the deserving from the undeserving poor, to stigmatize all the poor as a means of discouraging dependency, and to dispense aid in meager amounts in order to minimize program costs. The system was predicated on the assumption that the able-bodied poor generally were at fault for their own condition and accordingly should be denied aid except when there was good reason to believe that their joblessness was genuinely involuntary. In the latter case, their willingness to work should be tested by requiring them to perform unpleasant labor. Since the purpose of this work was to test the applicant's willingness to work rather than to supply the applicant with work, there was no necessary relationship between the amount of work required and the amount of aid dispensed. It also was common to require aid recipients to perform required labor in public to add an element of humiliation to its deterrent effect. Aid recipients were commonly termed "paupers"—both as a formal statutory designation and in common usage—and in many jurisdictions they were required to execute formal declarations of destitution and incapacity which were generally referred to as "pauper's oaths." Poor law administrators were commonly called "poor masters" or "overseers of the poor," designations with a long history in the poor law but also redolent of associations with slavery (Burns and Williams 1941, 11–20). The system was generally despised by the unemployed because of its unsympathetic and demeaning treatment of applicants for relief.

With the onset of the modern business cycle in the second half of the 19th century, this system began to be supplemented during recessions with ad-hoc efforts by public officials to provide emergency relief to the unemployed in the form of temporary work assignments. These "work relief" initiatives generally were confined to larger cities and lasted only a few months—typically over the winter when it was hardest for the unemployed to scrape by on their own. The work they were given usually consisted of menial outdoor tasks such as street cleaning and snow removal (Harvey 1999, 36–40).

Interestingly, these initiatives were almost always organized by public officials or private parties who had no responsibility for the administration of the poor law system. The unemployed had never been deemed an appropriate object of "pauper relief," and though the provision of small amounts of emergency relief to the families of unemployed workers was not unusual during recessions, public relief officials had neither the experience nor inclination needed to organize a public relief effort targeting the unemployed.

Between 1929 and 1933 the nation's public relief system was forced by circumstance to take on this task, but it did so in keeping with its historical suspicion of the able-bodied poor. In keeping with this tradition, what little public aid the unemployed received during this period was generally conditioned on the performance of work ranging from a straightforward work test to what today would be referred to as badly-organized workfare. Leaf-raking was both ubiquitous and emblematic of the kind of work required of relief recipients.

When the Roosevelt administration assumed office in early 1933, a consensus existed across the political spectrum that some form of government intervention was needed to meet the relief needs of the unemployed, reduce the level of unemployment, and facilitate a return to prosperity. The continuing debate concerned the form this intervention should take. The Roosevelt administration was eclectic and pragmatic in the strategies it pursued, guided by varied and often conflicting visions of how the economy should be structured.

The policies that emerged in this environment were not based on a unified vision, and different policy-making centers within the Roosevelt administration and Congress pursued different ideas. Nevertheless, the New Dealers did share a common view of the general nature of the nation's joblessness problem. This view contradicted the presumptions embedded in the nation's existing public relief system and in mainstream economic theory as well. The New Dealers believed that joblessness was caused by a lack of jobs, not by a failure on the part of jobless individuals to seek or accept work. They believed that cutting wages would likely increase joblessness, rather than reduce it, because of its depressing effect on consumer purchases. They believed the goal of government initiatives addressing the problem of joblessness should be to close the economy's job gap, not to correct moral failings on the part of jobless individuals or to put pressure on them to seek and accept presumptively available work. Concerns about the negative effects public assistance might have on jobless individuals persisted, but they were counterbalanced by more pressing concerns about the negative effects of joblessness itself. The New Dealers believed that society had an obligation to offer aid to persons denied the opportunity to be self-supporting by an absence of jobs and that this aid should be delivered without stigmatizing its recipients.

Despite the incompatibility of this vision with the nation's existing public relief practices, the Roosevelt administration's first steps in reforming the nation's public relief system were cautious ones. Rather than attempting to restructure the existing public relief system, the first legislation enacted by the New Dealers in this area was a straightforward financial bailout of the system. A new agency was created, the Federal Emergency Relief Administration (FERA), to distribute \$500 million in aid over 2 years to existing state and local public relief agencies. Moreover, believing the need for federal financing would be temporary, the legislation that created the FERA provided for its automatic demise once its two-year funding authorization had been dispersed. True, the use of federal funds for poor relief was unprecedented in the United States, but compared to other New Deal initiatives, this legislation was remarkable mainly for its lack of reformist goals. The only lever for reform created by the legislation was that half the funds were to be distributed at the discretion of the Director of the FERA.

The person tapped to head the FERA was a social worker by the name of Harry Hopkins who had been the top public relief official in New York State under Governor Franklin D. Roosevelt before Roosevelt was elected President. Hopkins' second in command was Aubrey Williams, another social worker with a strong administrative background.

Hopkins did try to use his control over the dispersal of FERA funds to change the system. His primary goals were first, to increase average aid levels, and second, to improve the quality of work relief programs. The first of these goals was easy to achieve since local relief officials had no objection to dispensing federal money. But the second goal was another matter. Steeped in the poor law tradition, local relief administrators resisted the blandishments of FERA officials, and Hopkins had no authority either to replace them or order them to reform the manner in which they dispensed relief. All he could do was deny them FERA grants, but that would only hurt the relief recipients he was determined to help.

Stymied in their reform efforts, Hopkins and Williams devoted considerable energy to thinking about the kind of system that should replace the existing one.

The key flaws in the system, in their view, were its assumptions that the able-bodied poor did not want to work and that the private sector could be relied upon to provide the jobs they needed to be self-supporting. Hopkins expressed his views on these two points in the following terms.

[People] suggest that we make relief as degrading and shameful as possible so that people will want to get “off.” Well – I’ve been dealing with unemployed people for years in one way and another and they do want to get off – but they can’t, apparently, get “off” into private industry. Well – if they can’t get off into private industry, where can they turn if they can’t turn to their government? What’s a government for? (quoted by Flanagan 1940, 74–75).

It was Williams, though, who best described the trajectory of their thinking. In a conceptual memo to Hopkins drafted in the fall of 1933, Williams proposed that “[r]elief as such should be abolished.” Instead, the unemployed should be offered real jobs doing genuinely useful work that suited their individual skills, and they should be paid a good daily wage for the work they performed. The unemployed should not be forced to submit to a means test to obtain this employment, and their earnings should not be limited to a public assistance “need” level. In other words, instead of public relief, unemployed workers should be offered quality employment of the sort normally associated with contracted public works. However, to minimize both the cost of this undertaking and the amount of time needed to launch it, the government should serve as its own contractor, and the projects undertaken should be both less elaborate and more labor-intensive than conventional public works (Schwartz 1984, 36).

This conception of the proper role of government in responding to unemployed individuals was revolutionary not only in its rejection of the poor law regime but in the substitute it proposed for it. The goal Hopkins and Williams pursued was to treat able-bodied recipients of public relief as workers whom the economy had failed rather than as failed workers. The goal of work relief, according to this model, should be to give unemployed workers what the economy denied them – decent jobs. As Hopkins commented in a 1936 speech:

I am getting sick and tired of these people on the W.P.A. and local relief rolls being called chiselers and cheats. . . . These people . . . are just like the rest of us. They don’t drink any more than the rest of us, they don’t lie any more, they’re no lazier than the rest of us—they’re pretty much a cross section of the American people. . . . I have never believed that with our capitalistic system people have to be poor. I think it is an outrage that we should permit hundreds and hundreds of thousands of people to be ill clad, to live in miserable homes, not to have enough to eat, not to be able to send their children to school for the only reason that they are poor. . . . I have gone all over the moral hurdles that people are poor because they are bad. I don’t believe it. A system of government on that basis is fallacious (Hopkins 1936, as quoted in Leuchtenberg 1995, 254–55).

Frustrated by their inability to implement the reforms they sought in local relief practices under the FERA umbrella, Hopkins approached President Roosevelt in early November 1933 with a proposal that an emergency employment program be established along the lines described in Williams’ memo. Hopkins proposed the



establishment of a program that would operate separately from the existing relief system and which would provide immediate employment to 4 million jobless workers.

One of Hopkins' concern in advancing this proposal was the apparent overlap between what he proposed to do and the mandate of the Public Works Administration (PWA). Created (like the FERA) during the New Deal's 100 day legislative blitzkrieg following President Roosevelt's inauguration in March 1933, the PWA was established to create jobs for the unemployed and "prime the pump" of economic recovery with a conventional public works spending program. Established under Title II of the National Industrial Recovery Act of 1933 (NIRA) with an initial appropriation of 3.3 billion dollars, the PWA had a broad mandate to "construct, finance, or aid in the construction or financing of" a wide range of public works. PWA projects were statutorily required to pay prevailing wages and to observe a shortened 130 hour month (a 30 hour work week) in order to maximize the program's employment effect.

Headed by Harold Ickes, the PWA was destined to log an impressive record of achievements over the 7 years of its existence, but Ickes determination to concentrate on major construction projects (like the Triborough Bridge and Lincoln Tunnel in New York City and the Grand Coulee, Bonneville and Boulder Dams in Washington and Colorado), his reliance on private contractors to undertake the work, and his insistence on using a competitive bidding process to award contracts meant that the program was slow to start up. No projects had been begun by November 1933. Still, Hopkins felt it necessary to emphasize in his meeting with Roosevelt that the program he proposed would complement rather than compete with the PWA by concentrating on smaller-scale projects that could be started and terminated on short notice.

In his meeting with Hopkins, Roosevelt mused that it would take about \$400 million to put 4 million people to work through the winter. Noting that the NIRA was broadly-enough worded that money could be taken out of the PWA's appropriation to fund such an initiative, he surprised Hopkins by accepting his proposal on the spot. A week later the Civil Works Administration (CWA) was formally established by executive order, with Hopkins at its head and a budget allocation of \$400 million diverted from the PWA (Schwartz 1984, 37–39).

To understand the subsequent fate of the CWA it is important to understand that Roosevelt's motives in accepting Hopkins' proposal were different from Hopkins' own. Hopkins wanted to reform the nation's public relief system—permanently and totally. Roosevelt's goal was more limited. He wanted a temporary employment program to fill the gap left by the slow start-up of the PWA, something that would tide the unemployed over the winter while providing a quick "pump-priming" to the economy. Disappointed by Ickes' slow pace in getting the PWA up and running, and concerned about growing political unrest among the unemployed, Roosevelt was quick to embrace Hopkins' proposal, but his long-term commitment to Hopkins' and Williams' vision of work relief was still untested.

Hopkins realized this from the beginning. At a December 6 staff meeting he responded to a suggestion that Congress might be persuaded to make the program permanent by cautioning his colleagues that he did not think it was "humanly possible for anybody to inject any chance of permanence in this thing" (Adams 1977, 61). That lack of permanence, known from the beginning, made what Hopkins and his staff accomplished all the more impressive. Though it lasted only 5 months

from its establishment in early November 1933 to its effective termination in early April 1934, the CWA still stands as the largest public employment program ever established in the United States. With a peak employment of 4.2 million in a labor force of 51 million, the CWA provided employment to about 8% of the nation's work force during the winter of 1933–34. A program of similar relative dimensions in the United States today would have to create 12 million jobs. Moreover, the CWA also was the New Deal program whose administrative structure, eligibility requirements, and wage policy came closest to achieving the policy goals Williams had formulated in the policy memo to Hopkins that crystallized their thinking on the subject.

The administrative task of establishing the CWA—which moved from nothing more than an idea to a fully-operational program with 4 million employees in about 10 weeks time—was gargantuan. The program employed six and one half times as many people as the rest of the federal government combined. To illustrate the scale of this task relative to the existing capacities of the federal government, it is useful to note what was required simply to distribute that many paychecks. At the time the CWA was established the federal government was writing an average of about 33 million paychecks a year. During the next four and a half months an additional 60 million were issued. To insure that the first batch of one million would be available on time, President Roosevelt ordered several federal agencies to suspend normal operations in order to provide the CWA what it needed. The U.S. Government Printing Office undertook its largest single order ever in delivering enough check-writing paper. The Bureau of Printing and Engraving scheduled triple shifts to print the checks which were then flown by the Postal Service's fledgling pilot corps to local Veterans Administration offices – the agency designated as the program's paymaster because it was the largest and most heavily automated federal disbursing system then in existence (Schwartz 1984, 48–50).

The CWA's administrative structure mirrored FERA's. In fact, the entire FERA staff was seconded by Hopkins to work on the CWA while continuing to perform their normal duties for the FERA. Parallel assignments were typical. Hopkins served simultaneously as director of the FERA and the CWA, and the existing FERA staff similarly assumed dual roles. At the state level, Emergency Relief Administrators appointed by Hopkins to supervise the distribution of FERA funds were now called on to administer the CWA. To fill out this structure a much expanded staff was recruited, and whereas the existing FERA staff was dominated by social workers, the new personnel tended to be engineers, managers, and economic planners. This infusion of administrators whose interests lay in production rather than social work caused some tension, but it also facilitated the CWA's break with older work relief practices. The new staff clearly viewed their task as the establishment of an emergency employment program for unemployed workers rather than providing public assistance to the poor.

Since the \$400 million Roosevelt turned over to Hopkins came from funds appropriated under the National Industrial Recovery Act (NIRA), the CWA was subject to the same statutory restrictions as the PWA. The most important of these was that the funds could be used only for the planning and execution of construction projects. To allow for the employment of persons for whom such work would not be suitable, FERA funds were used to establish a parallel Civil Works Service (CWS) Program administered by the same officials that ran the CWA. Altogether the FERA



contribution amounted to \$89 million, with the CWS accounting for ten percent of combined CWA/CWS enrollment.

The program's administrative structure also included a Women's Division which, like the CWS, used FERA funds to establish non-construction work projects for working-class women while also encouraging the hiring of women in non-construction positions in CWA construction projects. These efforts were not particularly successful. The Women's Division staff consisted mainly of people with backgrounds in voluntary charity work. They tended to hold more traditional views of the functions of work relief and, consequently, the projects they organized (mainly sewing rooms) tended to be run more like traditional work relief programs than CWA and CWS projects. The CWA also failed in its goal of filling at least 10% of all positions with women. In the end, women accounted for only 7.5% of total employment in CWA, CWS and Women's Division projects combined (Schwartz 1984, 158–80).

Racial and ethnic minorities also received disparate treatment. Discrimination on the basis of race or color was prohibited in the application of eligibility and wage standards, but segregation was permitted in project assignments. In some areas of the country separate projects were established for white and minority workers. The CWA staff in Washington did not direct this activity, but they failed to object to it. It also was common for skilled minority workers to be discriminatorily categorized as unskilled. On the other hand, minority workers were paid the same as white workers with the same job classification, and this was enough to precipitate significant political opposition to the CWA in the South where employers relied extensively on cheap African American labor (Charnow 1943, 40–41).

Altogether the combined CWA/CWS program cost \$976 million (1.4% of GDP), with the federal government providing over 90% of that total. When the program's initial allocation of \$400 million in PWA funds was exhausted in February 1934, an additional \$337 million was obtained from Congress to allow the program to wind down in an orderly fashion. The balance of the federal contribution consisted of FERA funds. The 10% of program costs contributed by state and local governments was provided in the form of payments for materials and supplies used in CWA work projects. The program's goal was to require local sponsors of work projects to bear all such non-labor costs, and they did so to a substantial degree.

Participant earnings totaled \$750 million or approximately 79% of total program cost. This was a much higher ratio than for the PWA, reflecting the intentional selection of labor-intensive projects. No studies were conducted of the indirect employment effects of CWA expenditures, but they probably were substantial since, in addition to the program's purchases of capital goods, program wages typically were spent very quickly on consumer goods and services.

Given the structural links between the CWA and the FERA, Hopkins and his associates were unable to create a program as devoid of associations with public relief as they wanted. This was apparent in the CWA's eligibility standards. The source of the problem lay in the fact that only 4.2 million jobs were created at a time when unemployment stood at approximately 11.5 million. This meant that program jobs had to be allocated among the unemployed.

Since Hopkins immediate goal was to replace locally-administered FERA work relief projects with federally-administered CWA projects, the decision was made to reserve half of all CWA positions for persons on relief. This meant that eligibility for

those positions was made contingent on submission to a means test. The other 2.4 million jobs were filled using normal hiring criteria for public employment. No means test was required to apply for those 2.4 million positions, and hiring decisions were supposed to be based exclusively on considerations of skill, training and experience. In accordance with this policy, the first round of CWA hiring involved the transfer of 1.5 million former FERA work relief recipients to the CWA payroll.

A total of 9 million people applied for the 2.4 million program jobs available without means-testing—a staggering number considering that total unemployment is estimated to have stood at 11.5 million at the time. To emphasize the non-relief character of this hiring, it was performed by the newly organized United States Employment Service (USES) rather than local relief offices. However, relief offices also were swamped with new applicants for public aid, since job seekers quickly realized that qualifying for relief was a surer means of getting a CWA job than applying for one through the USES.

Special hiring procedures also were adopted for skilled craftsmen. Instead of requiring applicants for these positions to apply through the USES, unions were allowed to refer their members in accordance with customary procedures for the trades in question. More importantly, the CWA agreed not to fill these positions from among USES applicants unless a local union failed to refer enough qualified workers. In other words, the CWA formally adopted a union shop policy for the skilled trades; however, local CWA administrators often ignored this policy unless local unions insisted on its observance (Schwartz 1984, 105–09).

The area in which the CWA broke most decisively with prior work relief practices was in its earnings policy. Customary practice in work relief programs had been to limit an individual's earnings to the individual's "budget deficiency"—that is, the difference between their available resources and their "need" as determined by local relief officials. Consequently, the number of hours an individual was required to work in a traditional work relief program depended on the size of the individual's budget deficiency, and this was true of FERA-funded work relief projects as well. Thus, despite a minimum wage which would have generated a \$12 weekly income for a 40 hour work week, actual earnings on FERA-funded work relief projects averaged less than \$5 per week in the period immediately preceding the establishment of the CWA.

No such working-hour limitation existed under the CWA. Hourly wage minimums were higher, but the more important difference was that everyone worked the same number of hours. The result was that average weekly earnings among CWA workers were three times as great as the benefits received by FERA-funded work-relief recipients.

Because the CWA's original funding came from the PWA, Hopkins also felt bound to use its wage scale—even though he was not statutorily required to do so and privately thought the CWA scale was too high (Schwartz 1984, 117–18). The minimum hourly rates for unskilled workers under this scale were \$.40, \$.45 and \$.50 respectively (equivalent to \$6.65, \$7.47 and \$8.32 per hour in 2009), depending on the area of the country in which the program operated. The corresponding rates for skilled workers were \$1.00, \$1.10 and \$1.20 (equivalent to \$16.62, \$18.27 and \$19.94 per hour in 2009). In highway construction, though, the usual rates paid by state highway departments were used, with a minimum set at \$.30 per hour (Charnow 1943, 58 n. 23). It also was national policy (though often ignored at the local level) to

recognize locally negotiated union contracts in the construction trades as determinative of prevailing wage rates.

The hourly rates paid by the CWA were controversial because they often were higher than the rates employers in particular regions (especially the South) or industries (especially agriculture) were accustomed to paying. What this debate tended to ignore was that actual earnings were much lower than the published standards suggested because of the program's relatively short work week of 30 hours (the maximum work week permitted under the NIRA—the source of the PWA funding transferred to the CWA). When these funds began to run out in mid-January, the program workweek was shortened still further to 24 hours per week in order to spread the remaining work as widely as possible. As a result, average program earnings declined from about \$15 per week to about \$11.30 per week. For purposes of comparison, average weekly earnings of privately employed workers equaled about \$20 in 1933.

Hopkins' goal was to give the unemployed work in jobs that utilized their existing skills, but both statutory and practical limitations made this impossible. First, as previously noted, statutory restrictions limited the CWA to construction projects. Second, a pre-existing FERA policy required that projects be performed only on public property. Third, no project was supposed to be undertaken that would duplicate work normally performed by state and local government employees. Fourth, no projects were supposed to be approved that could qualify for funding by the PWA.

Project selection also was constrained by timing issues and the desire to maximize the program's employment effect. This meant projects had to be labor intensive and capable of completion in a short period of time. It also meant they could not require significant advance planning or be hard to shut down on short notice. Finally, project selection also was subject to weather and political constraints.

Although the CWA hired its own workforce and carried out all projects without relying on private contractors, the CWA model called for projects to be sponsored by other government agencies at either the local, state or federal level. At the state and local level the sponsoring agency was expected to provide plans for the project and contribute the cost of the materials and supplies used in it, but that was the extent of their involvement. As a general rule, the program adhered to this model and state and local governments were enthusiastic in proposing projects. At the federal level the CWA assumed all program costs but still relied on sponsoring agencies to propose and plan the projects.

The quality of the sponsored projects varied widely. First, by taking over all FERA-funded work projects from the local relief officials who had been administering them, the CWA burdened itself with an initial portfolio of poor-quality work projects. While the CWA gained direct administrative control over these projects, it took time to implement significant quality improvements. As noted above, these projects comprised a substantial share of all program activities, employing 1.5 million former FERA work-relief enrollees at the outset of the program's operations and additional CWA employees as more were hired.

A second large group of projects originated with suggestions for new undertakings by local government officials. Approval authority for these projects was exercised by state CWA Administrators whose review of the projects was often cursory. The quality of these projects varied greatly. Where sponsors had already developed plans

for suitable construction projects, the activities tended to be quite successful and provided good value in terms of finished product. Where advance planning had not been completed, the results were less satisfactory, though the CWA's newly recruited and very competent Engineering Division was able to achieve steady improvement in the quality of the program's construction work over the life of the program.

A third large group of projects originated at the federal level. These projects were sponsored by a variety of federal government agencies including the Treasury Department, the Departments of the Interior and Agriculture, the Commerce Department, and the War Department. Most of these projects were developed in collaboration with CWA staff and also required the approval of a special office established within the Engineering Division that vetted them for quality control purposes. By all accounts the CWA's highest quality projects were found in this group.

As for the type of work performed, the single largest category of CWA projects consisted of road work. These projects accounted for 35% of all project expenditures and employed close to half of the program's entire workforce. Former FERA work-relief projects mostly consisted of this type of work. The road work consisted mainly of minor repairs and improvements rather than new construction. In many rural areas this was the only type of CWA work available.

The CWA administration was not happy with the predominance of road work in the program's activities. This type of project was associated both historically and in the public's mind with the kind of work relief the CWA was supposed to replace. Indeed a large proportion of these projects were taken over from FERA-funded programs. The difference between these earlier programs and their CWA counterparts was not immediately apparent to the public walking or driving by a CWA work crew. The fact that these projects were more visible than other, higher quality projects also made it more difficult for the CWA leadership to explain the innovative character of the CWA to the public.

Nevertheless, the social utility of this work cannot be denied. Road repairs are valuable, and the CWA improved over 250,000 miles of roads. Sometimes these projects were very large. In Chicago, the second largest city in the United States at the time, 11,500 CWA workers laid brick pavements in a major street-improvement project.

The next largest category of CWA projects consisted of construction and repair work on public buildings. This type of work accounted for about 15% of project expenditures. Approximately 60,000 public buildings were repaired or constructed, two-thirds of which were schools. Public health and sanitation activities constituted another major activity. Almost 2,300 miles of sewer lines were laid or repaired, swamp-drainage projects to fight malaria employed 30,000 CWA workers, and 17,000 unemployed coal miners were employed sealing abandoned coal mines to protect ground-water supplies. CWA workers also were employed in emergency disaster relief—either fighting floods or assisting in post-flood clean-up and repair work.

Other CWA project categories included improvements to public recreational facilities and to public transportation and utility systems. Over 3,700 playgrounds and 200 public swimming pools were constructed along with countless comfort stations, park benches and water fountains. Surprisingly, the CWA built 469 airports and improved another 529, but this was the dawning of the aviation age, and the facilities in question mainly consisted of unpaved landing fields.

Because the CWS was not limited to construction projects and employed professionals, the projects it undertook were more varied. Since most of these projects were sponsored by federal government agencies, they also benefited from the attention of the CWA's Washington staff. Professional associations also assisted in the design and management of many of these projects.

Large numbers of unemployed teachers were employed by the CWS. Education projects started under FERA provided jobs for 50,000 laid-off teachers in local schools. Another 13,000 kept small rural schools open through the winter. 33,000 were employed in adult education and nursery school programs. Adult education classes staffed by CWS teachers were attended by 800,000 people during the winter of 1933–34, and 60,700 pre-school children attended CWS nursery schools. The latter were generously staffed and provided warm clothes, hot meals, medical care, and parent education services in addition to childcare.

23,000 CWS nurses staffed a nationwide child health study, and 10,000 more were employed in a variety of other programs. The U.S. Coast and Geodetic Survey sponsored a triangulation and mapping project that employed 15,000 CWS workers. An aerial mapping project charted hundreds of U.S. cities and employed another 10,000 CWS workers. The National Park Service and the Library of Congress undertook a survey of the nation's historic buildings that provided work for 1,200 draftsmen. Over 70,000 people were employed in CWS pest-eradication campaigns, and a group of 94 Alaskan Indians were employed restocking the Kodiak Islands with snowshoe rabbits.

Cultural projects were also undertaken. A well-organized Public Works of Art Project sponsored by the Treasury Department employed 3,000 artists. Actors staged dramatic works in hospitals, schools and libraries. Opera singers toured the Ozark mountain region. CWS orchestras gave free concerts in major cities. The CWS also provided staffing assistance to public libraries and research assistance for scholarly projects. The Smithsonian Institution employed 1,000 CWS workers at archeological excavations in 5 states.

The single largest category of CWS employment, though, consisted of work performed on statistical surveys. The Department of Commerce employed 11,000 CWS workers to conduct a census of real property in 60 cities. An Urban Tax-Delinquency Survey documented the fiscal condition of 309 cities. The CWA's own Statistical Division employed 35,000 CWS workers to collect and record data and documentation concerning program operations, labor market conditions, and the nation's public relief problem.

The establishment of a program as large, as complicated and as innovative as the CWA within a span of weeks was a major administrative achievement. A War Department engineer assigned to study the program compared it favorably to the country's mobilization effort in World War I (Schlesinger 1959, 271). A New Deal historian commented that the "CWA stands out in all American history as one of the greatest peacetime administrative feats ever completed" (Charles 1963, 65).

The CWA was a remarkable experiment. More ambitious in its goals than any other New Deal employment program, it contemplated nothing less than the replacement of means-tested work relief with a promise of quality employment paying decent wages for performing work of genuine social utility. The quick demise of the program cut the experiment short. Still, Hopkins and his associates continued

their reform efforts, hoping that by stepwise movement they could win the political support needed to establish a more sustainable version of the CWA—even if that meant compromising on their goals. This is exactly what the establishment of the Works Progress Administration (WPA) achieved 2 years after the termination of the CWA.

The major lesson to be learned from the CWA concerns the vision it embodied, however imperfectly. That vision repudiated three important orthodoxies. The first was the assumption that the able-bodied poor were responsible for their own condition. Although discredited by the Great Depression, this assumption still survived in the administration of the nation's public relief system. Hopkins and his associates believed the able-bodied poor were no more responsible for their joblessness than laid-off members of the middle class. As Hopkins commented, "They don't drink any more than the rest of us, they don't lie any more, [and] they're no lazier than the rest of us" (Hopkins 1936, quoted in Leuchtenburg 1995, 254).

The second orthodoxy challenged by the CWA was the assumption that helping the able-bodied poor to obtain work required a different strategy than helping other categories of unemployed workers. In simple terms, the prevailing view then (as it is today) was that helping the able-bodied poor to overcome their joblessness requires changes in them, whereas helping other unemployed workers requires nothing more than the creation of more jobs. The CWA was premised on the contrary assumption that the reason the jobless poor didn't work was the same reason other categories of unemployed workers remained idle. There weren't enough jobs to go around. The remedy for this problem also was the same for the poor and non-poor alike. Create the jobs they needed.

Finally, the CWA challenged the assumption that social welfare policy should limit itself to relieving the non-able-bodied poor while leaving it to someone else to provide jobs for the able-bodied poor. Hopkins and his associates accepted that it was not their responsibility as social welfare administrators to fix what ailed the private economy, but they believed it was their job to provide jobs for the unemployed when the private sector did not. That was as natural a function of social welfare policy, in their view, as distributing food to the poor during a famine.<sup>1</sup>

Work relief conceived in this fashion fit naturally with the New Dealers' understanding of social insurance. The function of programs like the CWA was not so much to relieve poverty as it was to insure the nation's labor force against a loss of employment. The New Dealers' embrace of this model became clear when President Roosevelt appointed a Cabinet level "Committee on Economic Security" just 2 months after the official termination of the CWA. Roosevelt directed the Committee to develop a set of legislative proposals addressing the economic security needs of the

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<sup>1</sup> The New Dealers pursued a similar strategy in responding to other manifestations of the economic crisis. Instead of bailing out banks, the New Dealers responded to their own mortgage foreclosure crises by creating a government agency that purchased individual non-performing mortgages and refinanced them at a lower rate of interest so that stressed homeowners would not lose their homes. The same agency also made direct mortgage loans to people who couldn't otherwise obtain credit. By coming to the rescue of ordinary home owners in this way economic benefits were created that trickled up to the financial services industry. Non-performing assets were removed from bank balance sheets and the banking industry was stabilized—but with a program designed to provide stressed families with help rather than the banks themselves. A similar story could be told about the New Deal strategy for saving family farms.



American people—to provide them “some safeguard against misfortunes which cannot be wholly eliminated in this manmade world of ours.” Chaired by Secretary of Labor Frances Perkins and including Hopkins, the Committee submitted its report to the President 7 months later in January 1935. The social welfare strategy it proposed can be described as having two legs.

The first leg consisted of a promise of employment security for everyone who depended on wage labor for their livelihood, to be secured by active measures to stimulate private employment and, whenever necessary, direct job creation by the government.

Since most people must live by work, the first objective in a program of economic security must be maximum employment. As the major contribution of the Federal Government in providing a safeguard against unemployment we suggest employment assurance—the stimulation of private employment and the provision of public employment for those able-bodied workers whom industry cannot employ at a given time. Public-work programs are most necessary in periods of severe depression, but may be needed in normal times, as well, to help meet the problems of stranded communities and over manned or declining industries. (Report of the Committee on Economic Security 1935, 23).

The second leg of the strategy was designed to provide income security for persons who were not expected to be self-supporting. A new configuration of means-tested and non-means-tested transfer programs were proposed for this purpose. Federally-administered and/or federally-financed programs were proposed to provide unemployment compensation, old age security, and children’s aid. The Committee proposed that responsibility for the nation’s residual relief needs (which would have consisted mainly of providing relief for persons with disabilities) remain with state and local governments. However, even in that case the Committee made clear its intention that the nation’s traditional poor law regime be replaced with a system founded on the non-stigmatizing insurance principles that Hopkins espoused.

To prevent such a step from resulting in less humane and less intelligent treatment of unfortunate fellow citizens, we strongly recommend that the states substitute for their ancient, out-moded poor laws modernized public-assistance laws, and replace their traditional poor-law administrations by unified and efficient state and local public welfare departments, such as exist in some states and for which there is a nucleus in all states in the federal emergency relief organizations [i.e., the administrative structure that Hopkins had set up to run FERA and the CWA]. (Ibid., 27)

The Committee also prepared a national health insurance plan to meet the needs of “American citizens with small means.” This plan was designed to cover both the costs of medical care and to provide partial wage replacement for persons who lost work due to illness or maternity. When it became clear, however, that the medical profession was implacably opposed to any such initiative, killing any chance that it would be enacted by Congress, the president directed the Committee to omit it from the report they submitted to him.

President Roosevelt forwarded the Committee’s remaining proposals to Congress in early 1935, and Congress responded by enacting legislation during the spring and

summer of 1935 implementing every one of them to one degree or another. Leaving aside the abandonment of the Committee's unreported proposal to establish a national health insurance system, the most significant shortfall in implementing the Committee's social welfare vision was President Roosevelt's and Congress's failure to seek and provide adequate funding to fully implement the Committee's employment assurance proposal. The WPA was established (with Hopkins and Williams at its head) to supplement the PWA and the Civilian Conservation Corps in performing this function, but instead of authorizing enough funds to provide jobs for all the unemployed, the more modest goal was adopted of providing jobs for all the unemployed who qualified as needy—and even that goal was not consistently met.

Still, despite the failure of the Roosevelt administration and Congress to fully implement the proposals of the Committee on Economic Security, the vision of governmental obligation and individual entitlement expressed in its 1935 report came to comprise the core of what William Forbath has called the “New Deal Constitution of Social Citizenship” (Forbath 1999). More than any other reform initiative from the era, it was the Committee on Economic Security's conception of the obligations of government that defined the New Deal in the minds of the public, and the foundation on which that vision rested was the plan Hopkins and Williams developed in the fall of 1933 to close the economy's job gap.

### Learning from the new deal

What distinguished the New Deal's fiscal strategy is that it was driven mainly by social welfare rather than macroeconomic considerations. The economists and businessmen who advised President Roosevelt on economic policy believed that increased government spending could promote economic recovery by “priming the pump” of business activity, but unlike Keynesian theory, the “pump-priming” metaphor provided no support for deficit spending per se, nor any guidance as to how large a fiscal stimulus was needed to “prime” the economic recovery “pump.” In this policy environment, Roosevelt's desire to increase government spending to meet social needs often had the support of his economic advisors, but his decision about how much to spend was based on his weighing of social welfare needs against the goal of reducing the federal government's budget deficits, rather than a judgment about how large a fiscal stimulus was needed for counter-cyclical purposes.

Over the course of the decade that followed the articulation of the New Deal strategy in the Report of the Committee on Economic Security, President Roosevelt and other New Dealers regularly reaffirmed their commitment to the social welfare vision embodied in the Committee on Economic Security's proposals. Moreover, they increasingly came to express this commitment in the language of human rights, a frame of reference that ultimately found expression in Articles 22–25 of the Universal Declaration of Human Rights (Harvey 2007).

My argument is that the New Dealer's instincts were right. The proper way to design an economic policy response to a recession is to focus on the social welfare needs of the population viewed as human rights. Viewed from this perspective, the problem with President Roosevelt's fiscal conservatism was not that it prolonged the Great Depression unnecessarily, although it undoubtedly did, but that it prevented him from fully implementing the social welfare strategy his administration devised to

see the American people through the Depression by securing their economic and social human rights.

The Keynesian strategy of aggregate demand management that progressives embraced in the post World War II era and which continues to command their allegiance today was not based on their New Deal experience but rather on their experience in paying for World War II. Guided by Keynes *General Theory*, the lesson progressive economists took away from the war was that it didn't matter how economic stimulus dollars are spent during a recession. As Keynes famously quipped, you could bury bank notes in bottles at the bottom of abandoned mines, fill the mines with trash, and then invite capitalists to dig them up (Keynes 1936, 129). All that mattered was that the stimulus be large enough to raise aggregate demand to the full employment level.

The New Deal strategy is fully compatible with a Keynesian commitment to boosting aggregate demand. Nevertheless, it is important to understand that the strategy's commitment to securing the economic and social human rights that recessions threaten is independent of that macroeconomic goal and provides a justification for the strategy irrespective of its macroeconomic effect.

That said, Keynesian economists have good reason to embrace the New Deal strategy based solely on its advantages as a means of delivering a fiscal stimulus to an economy in recession. These advantages can be grouped under two headings. The first consists of enhancements to the anti-cyclical effect of the fiscal stimulus. The second consists of enhancements to the short-term job-creation effect of the fiscal stimulus.

Using the New Deal strategy to deliver a fiscal stimulus will enhance its anti-cyclical effect in two ways. First, by providing immediate reemployment to laid-off workers, the New Deal strategy would provide a faster and more effective means of short-circuiting the negative spiral that does the most harm during a recession—the tendency for job losses to cause further job losses. No other means of delivering a fiscal stimulus to an economy can promise to reemploy unemployed workers as quickly and with as little disruption to their normal consumption expenditures as the New Deal strategy. Second, because most of the fiscal boost provided to the private sector by the New Deal strategy would result from a resumption of ordinary consumption spending by reemployed workers, it would tend to fill precisely the same gap in business income that the spread of unemployment during a recession causes. Businesses that suffered losses due to the depressing effect of unemployment on consumer demand would not have to wait for the benefits of a fiscal stimulus delivered somewhere else in the economy to trickle through to them. They would feel the effects of the stimulus almost immediately, and their healthier balance sheets would make it possible for them to participate both more quickly and more aggressively in a resumption of economic growth. Stimulus spending distributed in other ways is unlikely to be as well-positioned microeconomically to foster a resumption of economic growth; and even if the stimulus has been delivered to industries with a high growth potential, their expansion is not going to be capable of lifting the entire economy until the damage done to consumer-oriented businesses by the recession is repaired.

There is only one caveat to this assessment of the enhanced anti-cyclical effect of a fiscal stimulus delivered via the New Deal strategy. The caveat is that the multiplier effect of stimulus spending delivered in this way would be somewhat smaller than that of some other forms of stimulus spending (Harvey 2011). The practical

importance of that caveat pales to insignificance, however, in light of the other major advantage of the New Deal strategy as a means of delivering a fiscal stimulus—its short-term job creation effect.

Simply stated, the New Deal strategy outperforms all other anti-recession measures as a means of creating jobs, including stimulus measures with a higher income multiplier than the New Deal strategy. The reason for this is that the front-loaded round of direct job-creation that kicks off the multiplier effect of the New Deal strategy adds far more to the overall job-creation effect of the strategy than is lost as result of its possibly diminished multiplier effect compared to some other types of stimulus spending (Ibid.). Table 1 illustrates this difference.

Table 1 estimates both the direct and indirect job creation effects of a \$100 billion fiscal stimulus delivered to the U.S. economy during the so-called Great Recession of 2008–09 using three different spending strategies. The first is a continuation of the so-called Bush-era tax cuts that were included in the compromise tax cut agreement negotiated between the Obama Administration and Republican leaders of Congress following the 2010 mid-term elections. The second strategy consists of an increase in

**Table 1** Job-creation effect of A 2-year \$100 billion fiscal stimulus (number of jobs created)

Job-Creation Effect	Type of Stimulus		
	Bush Tax Cuts	UI and SNAP Benefits	Direct Job Creation
Peak Effect on Payroll Employment <sup>a</sup>	108,000	568,000	1,519,000
Directly-Created two-year jobs (available immediately)	–	–	1,075,000
Indirectly-Created Jobs (peaks towards end of second year)	108,000	568,000	444,000
Job-years of Payroll Employment <sup>b</sup> Created During First 2 Years	118,000	619,000	2,635,000
Directly-Created Jobs	–	–	2,151,000
Indirectly-Created Jobs	118,000	619,000	484,000
Job-years of Payroll Employment <sup>b</sup> Created over 4 years	216,000	1,130,000	2,635,000
Directly-Created Jobs (available exclusively during first 2 years)	–	–	2,151,000
Indirectly-Created Jobs	216,000	1,130,000	884,000
Job-years of FTE Employment <sup>c</sup> Created over 2 years	136,000	714,000	2,709,000
Directly-Created Jobs	–	–	2,151,000
Indirectly-Created Jobs	136,000	714,000	558,000
Job-years of FTE Employment <sup>c</sup> Created over 4 years	299,000	1,564,000	3,374,000
Directly-Created Jobs (available exclusively during first 2 years)	–	–	2,151,000
Indirectly-Created Jobs	299,000	1,564,000	1,223,000

<sup>a</sup> Payroll employment equals the number of persons employed as of a particular date, regardless of how long their employment lasts or whether it is full or part time

<sup>b</sup> Job-years of payroll employment equals 52 weeks of employment, regardless of whether the employment is full or part time

<sup>c</sup> A Job-year of full-time equivalent employment equals 2080 hours of employment (40 hours of employment per week for 52 weeks)

Source: Harvey (2011)

Unemployment Insurance (UI) and Supplemental Nutritional Assistance Program (SNAP) benefit payments, two types of stimulus spending with among the highest income multipliers (Blinder and Zandi 2010). The job-creation effect of these three stimulus strategies are measured in several ways, since different measures of job creation are not necessarily proportionate to one another.

What the table shows is that the estimated job creation effect of the New Deal's direct job-creation strategy far exceeds that of the other two strategies. Indeed, the model on which these estimates are based suggests that if the New Deal strategy had been deployed in February 2009, the nation's unemployment rate could have been reduced to its pre-recession level and kept there for as long as it took for the economy to recover for far less than the federal government actually has spent on fiscal stimulus measures. From this perspective, the problem with the federal government's response to the Great Recession has not been that it spent too little, but that its spending has been very poorly allocated. The New Deal strategy constitutes not only a far more progressive response to recessions on social welfare and human rights grounds. It also constitutes a far more effective response on purely economic grounds.

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