

# Learning from the New Deal

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(forthcoming in *Human Rights in the United States*, edited by Shareen Hertel and Kathryn Libal, Cambridge University Press)

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Philip Harvey<sup>1</sup>

## INTRODUCTION

In the first part of this paper I argue that New Deal social welfare planners developed an effective and affordable strategy for securing the economic and social entitlements recognized as human rights in the Universal Declaration of Human Rights over a decade before the Declaration was drafted and that the New Dealers' vision played an important role in shaping the document. I further argue that in addition to securing these rights, the New Deal strategy also constitutes a highly effective anti-cyclical policy capable of achieving and maintaining sustained full employment without accelerating inflation across all phases of the business cycle. Finally, I argue that 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 the second part of the paper I model a response to the current recession based on the New Deal strategy. The proposed response is designed to guarantee all Americans the right to work and income security proclaimed in the Universal Declaration and, in the process, to achieve the anti-cyclical goals of the Obama Administration's response to the recession. The purpose of this modeling exercise is to show that the New Deal strategy is both morally superior to the policies progressives normally pursue and also would constitute a more effective and efficient anti-cyclical policy.

## PART ONE

### The New Deal

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 percent. Four years later, per capita GDP had fallen to \$5975, and the unemployment rate had risen to 25.2 percent. If only non-farm employees are counted, unemployment rose from 5.3 percent in 1929 to 36.3 percent in 1932. In a total civilian labor force of just over 50 million in 1932, approximately 12 million were jobless .

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

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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 percent 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 percent between 1929 and 1932 (U.S. 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 percent (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 restructuring the delivery of public relief at the local level, where the attitudes and practices the New Dealers wanted to change were centered, a straightforward financial bailout of the existing system was legislated. A new agency was created, the Federal Emergency Relief Administration (FERA), to distribute \$500 million in aid over two years to existing state and local public relief agencies. Moreover, believing the need for federal financing would be temporary, Congress not only left the existing public relief system in place, the same legislation that created the FERA provided for its demise when its two-year funding authorization was exhausted. 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 secondly, 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? (Leuchtenburg, 1968: 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 that "[r]elief as such should be abolished." Instead, the unemployed should be offered real jobs paying good daily wages, doing genuinely useful work that suited their individual skills. 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 offering public relief to the unemployed, they 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 (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 seven 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 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 percent 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 that crystallized his and Hopkins' 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 as both FERA and CWA Director 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—like Hopkins himself—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).

Non-whites 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 non-white 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, non-white 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 black labor (Charnow, \_\_\_: 40-41).

Altogether the combined CWA/CWS program cost \$976 million (1.4 percent of GDP), with the federal government providing over 90 percent 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 percent 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 percent 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: 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 farther 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 couldn't 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 percent 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 percent 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 2300 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 3700 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 1200 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 3000 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 1000 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, 1958: 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 public employment, paying decent wages and 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, even if less ambitious version of the CWA. This is exactly what the establishment of the Works Progress Administration (WPA) achieved two 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 quote).

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; and the remedy for this problem was also 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>2</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 two 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 American people—to provide them "some safeguard against misfortunes which cannot be wholly eliminated in this manmade world of

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<sup>2</sup> The New Dealers pursued a similar strategy in responding to other manifestations of the economic crisis. Instead of bailing out banks as we have done, 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.

ours.” Chaired by Secretary of Labor Frances Perkins and including Hopkins, the Committee submitted its report to the President seven months later in January 1935. The social welfare strategy it proposed can be described as having three 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.

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 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].

The third leg of the Committee’s proposed strategy was to provide certain types of social welfare benefits to all members of society, without regard to whether the recipients were or were not expected to be self-supporting. Although the Committee did not make this comparison, this was the strategy that already existed for the provision of primary and secondary education in the nation’s public school system. The Committee’s only immediate proposal under this heading was the establishment of a federally-funded public health service; but it also described the main features of a tentative national health insurance plan it had developed to meet the needs of “American citizens with small means.” This tentative 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. The Committee indicated that it had submitted this plan to organizations of health care providers for their input and endorsement, and that once this process of consultation was completed; it would submit a fully specified proposal to the President. The active opposition of the medical profession to a national health insurance system torpedoed this plan.

President Roosevelt forwarded the Committee's proposals to Congress in early 1935, and Congress responded by enacting legislation during the spring and summer of 1935 implementing every one of the Committee's proposals to one degree or another. Leaving aside the failure of the Committee's plan to propose the establishment of 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 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." 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.

Over the course of the following decade, both before and during World War II, 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. The trajectory of this development can be traced from the pioneering contribution of Hopkins and Williams in the fall of 1933, to the 1935 Report of the Committee on Economic Security, to President Roosevelt's inclusion of the "freedom from want" in his internationally influential "Four Freedoms" speech in 1941, to the express embrace of the language of economic and social human rights in the 1942 report of the National Resources Planning Board, to the Presidents quintessential adoption and proffered justification of this language in his "Second Bill of Rights" speech in 1944, to the American Law Institutes 1945 "Statement of Essential Human Rights" (work on which began in 1942 in response to the President's Four Freedoms speech), to the embrace of this self-same vision by United Nations committee that drafted the Universal Declaration between January 1947 and December 1948—a committee that was chaired by Eleanor Roosevelt, the President's widow and tribune of the dispossessed within her husband's administration.

I am not suggesting that the "New Deal Constitution of Social Citizenship" was the only source of the economic and social provisions of the Universal Declaration of Human Rights. One of the reasons for the popularity of that vision was its consistency with similar ideas expressed in the political, philosophical, and religious traditions of other countries and cultures throughout the world. Still, it is important for American progressives to be aware of the American contribution to that vision, since it now seems largely forgotten in the United States, even among progressives who one might have expected to have kept it alive at all costs.

### **Anti-Cyclical Policy**

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 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 arena that attracted most of their attention—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.

Anyone with a passing familiarity with Keynesian economics and the history of the New Deal can appreciate the force of the advice these commentators were offering. The stimulus package the Obama administration proposed and Congress enacted in February 2009 does appear in retrospect to have been too small. A year after the stimulus was enacted the nation's unemployment rate was more than 2 percentage points higher than when President Obama took office. The only caveat to this judgment is that less than half of the \$787 billion authorization had actually been paid out ([www.recovery.gov](http://www.recovery.gov), visited May 6, 2010) so it's not clear whether the problem was the size of the stimulus package or the slowness with which it was disbursed.

I want to make a different point—that the importance of the New Deal example as a guide to anti-cyclical economic policy lies in what it can teach us about how stimulus dollars should be spent rather than in how large the stimulus needs to be. Stated differently, while it undoubtedly is true that FDR could have achieved a quicker recovery if he had been willing to run larger budget deficits, the more important lesson progressives should take away from their 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—and it's nothing like what the Obama administration has implemented.

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.

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 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.



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 gold at the bottom of abandoned mines and invite capitalists to dig it up, or, more realistically, blow it up on the battlefields of North Africa, Europe and Asia. All that mattered was that the stimulus be large enough to raise aggregate demand to the full employment level.

The New Deal strategy, in contrast, was based on a commitment to securing the economic and social rights needed to insure that all members of society survived the Depression unscarred. This strategy is fully compatible with a Keynesian commitment to boosting aggregate demand. In fact, I shall argue below that it provides a superior vehicle for delivering a Keynesian fiscal stimulus to a depressed economy; but the strategy's commitment to securing the economic and social human rights that recessions threaten is independent of that macroeconomic consideration.

The immediate goal of Keynesian anti-cyclical policy during a recession is to boost aggregate demand, not to offer assistance to the victims of the economic downturn. Given the policy's theoretical indifference to the way stimulus dollars are spent, the strategy tends to favor trickle-down fiscal initiatives in practice because they are easier to enact than the trickle-up measures progressives prefer. One consequence of this tendency is that it reduces both the effectiveness and the efficiency of the stimulus effort (compared to the New Deal strategy) by increasing its cost per created or saved job while simultaneously delaying its positive labor market effects.

Consider the fiscal stimulus package Congress enacted in February 2009. A thoroughly Keynesian initiative, Congress authorized \$787 billion in tax cuts and additional spending which Obama Administration economists predict will create or save between three and four million jobs by the end of 2010. Divide 3.5 million into \$787 billion and you discover that the stimulus is designed to spend \$225,000 per job to achieve its desired effect, while requiring even those workers who find work because of it to wait over a year before the jobs they will fill are created. Why does it cost so much to produce so few jobs so slowly?

As explained above, the answer is because the immediate goal of the stimulus plan is not to create jobs. It's to increase aggregate demand which, in turn, will lead to job creation. To better understand this point it is useful to distinguish between "first-round" and "secondary" spending. As the term suggests, first-round spending is defined by the way the government spends the funds allocated to the stimulus effort. It may be a tax cut, in which case there is no first-round spending at all. It may be an increase in transfer benefit payments, in which case the first-round spending consists of those benefit payments. It may be an increase in public works spending, in which case the first-round spending goes to the contractors who undertake the work. It may be an increased budget allocation to a government agency to hire more teachers, in which case the first-round spending goes to the teachers hired. Or it may be a budget allocation to a New-Deal style direct job-creation program, in which case the first-round spending goes to the unemployed workers who are employed by the program.

In each of these cases secondary spending is induced by and follows the first-round spending; and eventually this secondary spending leads to job creation or job preservation. The beneficiaries of tax cuts spend some or all of the money that stays in their pocket, and the businesses that benefit from that spending may be induced to hire additional workers or refrain from laying off workers because of this

boost in demand for the goods and services they sell. The persons who receive increased transfer benefits similarly spend some or all of their additional income, and so forth.

What this process illustrates is that the Keynesian strategy can be characterized as producing two benefits. The first is the immediate benefit “purchased” by the expenditure of stimulus dollars—i.e., tax cuts, increased transfer benefits, etc. The second benefit is the job creation that ultimately flows from the secondary spending induced by this initial purchase of benefits.

It is this characteristic of the Keynesian strategy that accounts for its political appeal, since interest groups that might oppose the stimulus strategy on ideological or other grounds are tempted by the opportunity to line their own pockets or to use the stimulus package to pursue other favored goals. We saw this process at work when the Obama stimulus package was being negotiated in Congress. While some of the debate focused on the overall size of the package, most of it involved conflicts over what groups or program initiatives would be the beneficiaries of the stimulus package’s first-round spending. As the famous epigram about sausages and the law suggests, it was not an elevating spectacle, but it illustrates why progressives have found the Keynesian strategy so appealing. You generally can get a stimulus package enacted during a recession. The question is how many of your own preferences have to be sacrificed in allocating the package’s first round of spending in order to get the votes necessary to enact the package.

Viewed from this perspective, the New Deal strategy for combating recessions can be defined as a Keynesian stimulus whose first-round spending is devoted to securing the economic and social human rights of the victim of the recession, and particularly their right to work. Progressives generally assume that while the way a stimulus package is spent may be important for non-economic reasons, the only reason to prefer one stimulus package over another on economic policy grounds is that the multiplier effect of the stimulus may vary depending on differences in the marginal propensities to consume of different recipients of stimulus money. I think this is a mistake and that the New Deal strategy has three distinct economic advantages over the Keynesian strategy.

First, it has the advantage of being equally well-suited for use at the top and the bottom of the business cycle. Another disadvantage of the Keynesian strategy—in addition to those I have identified above—is its ineffectiveness as a means of expanding employment opportunities at the top of the business cycle. The problem is that a generalized fiscal stimulus in that context tends to overstimulate sectors of the economy that don’t need it long before it reaches those sectors of the economy whose expansion is needed to provide jobs for workers who still suffer from unemployment. The result is an unleashing of inflationary pressures and an end to the stimulus effort for either economic or political reasons.

This means the Keynesian strategy is useful as a means of combating unemployment only during recessions and the early recovery period following a recession, and that means the strategy has to be implemented anew each time it is needed. The result is delay, higher start-up costs, and difficulty in retaining the expertise and institutional structures needed to design and administer an economic stimulus plan.

In contrast, the New Deal strategy is equally well-suited to deliver an anti-recessionary boost to aggregate demand a non-inflationary or minimally-inflationary boost to job creation at the top of the business cycle. Moreover, the way in which the jobs program and transfer payment elements of the New Deal strategy would be administered would be identical in the two periods. The only variable

would be the number of jobs created and the number of people eligible for transfer benefit payments of a given type and size. Thus, while the initial start-up of the New Deal strategy would take time, once it was in place it would retain the inherent capacity and practical administrative experience necessary to expand and contract over the course of the business cycle.

Second, to the extent the goals of an anti-cyclical stimulus are to protect the population from job and income losses, the New Deal strategy can achieve those goals both more quickly and at a lower budgetary cost because the benefits “purchased” with first-round spending consist of precisely those goals. Instead of making job creation a secondary benefit of increased spending on other policy goals, the New Deal strategy supports other policy goals as a secondary benefit of job creation.

A Keynesian might question the desirability of reducing the cost of an anti-cyclical stimulus on the grounds that it would delay the economy’s full recovery from a recession by reducing the multiplier effect of the stimulus spending. There are two responses to this objection. The first is that if a bigger boost to aggregate demand is considered desirable, it could be provided by funding spending initiatives in addition to those required to implement the New Deal strategy. The second response is to ask whether it really is desirable to achieve a more rapid recovery of aggregate demand. As conservatives frequently complain, government spending distorts and interferes with the operation of markets. They’re right. It does, and progressives consider that a good thing if the market forces in question are producing undesirable social or economic effects. A Keynesian stimulus causes sizable market distortions because the spending involved typically is sizable. This distortion has always been justified because of the social costs of economic downturns, but if those social costs are avoided by application of the New Deal strategy, would it still be desirable to foreshorten the market correction embodied in a recession?

Minimizing the duration of an economic downturn may be desirable even if the social costs of the downturn are avoided by other means. This could be the case, for example, where there is a pressing need for the foregone wealth an expanding economy produces. On the other hand, market corrections also produce benefits—the “creative destruction” that Joseph Schumpeter described, the bursting of speculative bubbles, or simply the weeding out of inefficiently run business enterprises. If the social costs of a recession can be avoided by pursuing the New Deal strategy, a government could decide to allow the process of correction that precipitated the crisis to proceed.

By providing immediate reemployment to laid-off workers, job losses caused by that adjustment process would not precipitate further job losses as normally happens during a recession. This would moderate the recession and prevent it from spiraling deeper than needed to achieve whatever market corrections the economy requires. Also, because the fiscal stimulus provided by the New Deal strategy flows mainly from the maintenance of ordinary spending patterns by workers employed in the strategy’s direct job creation programs, the stimulus would tend to fill the same deficit in business income that the program participants’ loss of private-sector employment otherwise would have caused. This would help protect healthy businesses from being swept away by the recession. In other words, the New Deal strategy would tend to protect both workers and healthy business firms from the negative effects of a recession without extending the same protection to businesses in need of market correction.

When these economic advantages of the new Deal strategy are added to its ability to secure the economic and social human rights recognized in the Universal Declaration, I believe progressives have ample reason to prefer it to the Keynesian strategy.

## Learning from the New Deal

If the New Deal strategy is so clearly superior to the Keynesian strategy, why did progressives abandon it in favor of the Keynesian strategy? That question has perplexed me ever since I began my research on this topic 25 years ago. I have no clear answer but will offer two hypotheses, while hoping that an historian will someday do the research necessary to answer the question definitively.

My first hypothesis is that progressives never realized that what I have described as the New Deal strategy had positive lessons to teach them about anti-cyclical policy because they never thought of it as anything other than a social welfare strategy. That's how Hopkins and Williams conceived it. That's how the social welfare planners who incorporated it into their design of the American welfare state viewed it. And economists never paid the slightest attention to it other than as an easy way to inject purchasing power into the economy. Accordingly, when progressive economists turned their attention to the task of devising an anti-cyclical economic policy for the post World War II era it never occurred to them to even think about what the New Deal strategy might teach them—other than the negative lesson that more spending was needed to pull an economy out of a serious recession than President Roosevelt was willing to tolerate.

My second hypothesis is that progressives embraced the Keynesian strategy because it was politically easier to implement than the New Deal strategy. The New Deal commitment to securing economic and social rights was very controversial, particularly the right to work. Even President Roosevelt couldn't be counted on to spend enough on the goal to pull the economy out of a serious recession. In contrast, fight a war and the money flowed like water. It proved ridiculously easy to achieve full employment during World War II. Why fight over the obligations of government to secure the right to work directly if it was so easy to achieve the same goal indirectly by spending public dollars on something that conservatives found it hard to resist either for patriotic reasons or out of self interest. It was not until the mid 1970s that the limitations of this Faustian accommodation became apparent, when inflation emerged as a serious impediment to the achievement of full employment by means of the Keynesian strategy. By then, all memory of the New Deal strategy had dissipated in the mist of time.

Either or both of these hypotheses could explain the abandonment of the New Deal strategy by progressives, except for one part of the story that I find hard to explain. That is the willingness with which progressives also abandoned their reliance on the language of human rights in promoting social welfare reforms following the end of World War II. Rights talk is powerful, and progressives showed that they understood that power both during the New Deal era itself, when they embraced the language of rights to promote their social welfare agenda, and in the post war era when they embraced the Civil Rights Movement in the United States and adapted its rights talk to a wide range of other reform initiatives—including an abortive attempt in the late 1960s and early 1970s to promote a right to welfare as an anti-poverty strategy. What kept Progressives from resurrecting or even acknowledging the existence of a rich, robust, carefully conceived, and fully elaborated strategy for securing a full complement of economic and social entitlements? Not only was it readily available to them in documents like the Universal Declaration and President Roosevelt's 1944 State of the Union Message (his "Second Bill of Rights" speech); it was described in abundant detail in sources like the Report of the Committee on Economic Security of 1935, the 1942 Report of the National Resources Planning Board, and the American Law Institute's "Statement of Essential Human Rights." It was an inheritance of enormous value that Progressives abandoned in the late 1940s and have yet to reclaim. Neither of my hypotheses can account for this conundrum, and I admit to being puzzled by it.

## PART TWO

### Modeling the New Deal Strategy

In the balance of this paper I shall describe how the New Deal strategy could be structured for application today, and I will estimate the cost of such an initiative. I have previously undertaken such an exercise for the 10-year period from 1977-1986 (Harvey, 1989). The direct-job-creation component of the model described below is similarly structured to that earlier model, but the income support element is treated differently. Also, the model described below is still in the process of development. A number of the cost factors included in it are rough estimates, and I have thus far estimated the strategy's cost only for 2009. I intend to continue working on the model, both to refine the accuracy of its cost estimates and to extend that cost estimate to additional years. Still, I believe it provides a reasonably good "ball-park estimate" of what it would cost to implement a robust version of the New Deal strategy—one capable of fully securing the right to work and income security recognized in the Universal Declaration—at a time when the cost of such an initiative would be at its maximum level because of the existence of a deep recession. I shall first describe the features of my model and then discuss my estimate of what it would have cost to implement it in 2009.

**What Is the Program's Goal?** The program has been designed to secure the right to work and income security proclaimed in Articles 22-25 of the Universal Declaration of Human Rights. In the course of achieving this purpose it would achieve the functional equivalent of sustained full employment; prevent the downward spiral of job losses that characterize recessions; and serve as a vehicle for delivering a fiscal stimulus to the economy if one were needed.

**How Would the Program Achieve this Goal?** The mechanism proposed would be a program of direct job creation combined with an expansion of conventional income transfer benefits, the latter to supplement the earnings of low-wage workers as well as to guarantee an adequate standard of living for persons who are either unable or not expected to be self-supporting.

The jobs program would create enough jobs to guarantee paid employment for all job seekers. The type of job creation contemplated is illustrated by New Deal programs such as the Civilian Conservation Corps (CCC), the Civil Works Administration (CWA), the Works Progress Administration (WPA), and the National Youth Administration (NYA), but also by more recent programs like the Jobs Corps (JC), the College and High School Work Study Programs (WS), the Comprehensive Employment and Training Act (CETA), and the Summer Youth Employment Program (SYEP). The program would differ from most of these earlier initiatives, though, in that eligibility would not depend on a means test, and the wages paid would be higher. Once the jobs program was fully implemented, the only involuntary unemployment that would remain would be genuinely frictional (Harvey, 2007).

The proposal assumes that income transfer programs would be used to supplement the wages of workers who lacked the skills necessary to earn enough to secure a decent standard of living for themselves and their families. Income transfer programs would guarantee a similarly adequate standard of living for persons who could not or were not expected to be self-supporting. The bulk of this support would be provided in the form of non-means-tested social-insurance benefits. The Social Security Old Age and Survivors Insurance (OASI) program exemplifies this type of benefit. Significant benefits also would be provided through means-tested programs such as Supplemental Security Income (SSI), the Section VIII housing voucher program, the Supplemental Nutritional Assistance Program (SNAP), and the

Earned Income Tax Credit (EITC). The proposal assumes that these benefits would be increased, where necessary, to guarantee recipients an adequate standard of living.

**Doesn't Means-Tested Income Assistance Stigmatize those who Receive It?** There is a centuries-old tradition in market societies of using means-tested public assistance to punish and stigmatize the poor (Harvey, 1999; 2000), but programs in which this tradition survives would not be relied upon under this proposal to provide income assistance to those who need it to achieve an adequate standard of living. The programs relied upon—SSI, Section VIII housing vouchers, SNAP, and the EITC—have been designed and are administered so as not to stigmatize their beneficiary population, and further changes could be introduced in them, if necessary, to ensure that they don't. The important thing to keep in mind is that means-tested benefits are not inherently stigmatizing.

**Is the Job-Creation Leg of the Proposal What Some Progressives call an Employer of Last Resort (ELR) Program?** Yes, although I do not use that term because I think it encourages two misconceptions. The first is that the jobs created would provide "last resort" employment in a qualitative sense rather than employment indistinguishable from employment provided in regular public and private sector jobs. The second misconception is that the jobs would be created in order to provide employment for people who lack the skills or work ethic necessary to succeed in a regular job rather than to eliminate a deficit in the number of jobs provided in the regular labor market relative to the number of people who want jobs.

My model also differs in certain substantive respects from most job-creation proposals advanced under the ELR banner. The most important of these differences is that most ELR proposals call for all program participants to be paid the same wage, whereas my proposal assumes that the wages paid to program participants would vary by job, just as is the case with regular public and private sector employment.

**Who Would Administer the Jobs Program?** A variety of administrative structures are possible and mutually compatible, so no one structure would have to be used to the exclusion of others. The largest New Deal jobs programs were operated by the federal government (which meant that program participants were federal employees) but most of the projects undertaken by these programs were proposed and sponsored by local governments who shared part of the cost. Projects also were sponsored by federal agencies. For example, the Treasury Department sponsored the WPA's famous Public Works of Art Program that provided jobs for unemployed writers, artists and performers. It also would be possible for a federally operated program to undertake projects sponsored by non-governmental organizations.

An alternative administrative structure that has been used in direct job-creation programs in the past is for operational authority for administering the program to be delegated to state and/or local governments who apply for federal funding for that purpose. This was the operational structure adopted for the CETA program, but that experience illustrates that this model requires careful monitoring to prevent local governments from using it to replace regular government employees (a tendency referred to as fiscal substitution).

A third administrative structure involves contracting with non-governmental entities, usually non-profit organizations, to operate work programs or administer individual jobs. An example of this structure that has worked very well for many decades is the Work Study program and its New Deal predecessor, the in-school work program administered by the National Youth Administration. Other examples include the many non-profit organizations that have provided jobs funded by the Summer

Youth Employment Program. No one structure works best for all types of projects and participant populations.

**What Kind of Work Would Jobs Program Participants Do?** Since the program is designed to create jobs for unemployed individuals in the communities where they live (the exception being residential youth employment programs like the CCC and Job Corps) it is naturally well-suited to fill unmet needs in those communities. This linkage is also useful since unmet community needs tend to be greatest in those communities with the most unemployment.

Some of the unmet needs the program would strive to satisfy would involve the delivery of services to program participants themselves—such as the provision of child care. Meeting these needs probably would comprise the program’s first projects, and since the services needed by program participants would be needed by other workers as well, providing them to all workers would be a useful function for the program to perform.

Other community needs the program could help fill would involve construction work – the rehabilitation of abandoned or sub-standard housing, basic conservation up-grades (such as caulking windows and doors and installing low-flow toilets), the construction of new affordable housing units, the improvement of existing public parks, the construction of new parks, and the beautification and improved maintenance of indoor and outdoor public spaces.

The program also could provide work expanding and improving the quality of public services in areas such as health care, education, recreation, elder care, and cultural enrichment. Keeping in mind that the jobs program would always be there but that its size would vary over the course of the business cycle, all levels of government could expand the services they provide on an intermittent basis and add new services to satisfy unmet needs. In short, communities would be encouraged to view their unemployed members as an untapped resource rather than as a burden.

**What about Big Infrastructure Projects—Especially Green Infrastructure Projects?** Big infrastructure projects tend to impress the public and win political support more easily than smaller projects because they are, well, BIG. But they don’t lend themselves very well to a program designed to close the economy’s job gap, except during major economic contractions. There are three reasons for this. First, big infrastructure projects take a long time to implement. As noted above, the New Deal’s first large job creation program, the CWA, was created because of the length of time it was taking to get the PWA (the agency Congress created to undertake large infrastructure projects) up and running. Eventually, the PWA did accomplish both its job-creation and infrastructure-investment goals, but the unemployed shouldn’t have to wait two or three years for a job. Even a few months is too long, and that means a jobs program designed to provide the unemployed with work needs to be designed with greater flexibility than is possible with most large infrastructure projects.

The second problem with big infrastructure projects is that they tend to be capital intensive. This doesn’t mean they necessarily create fewer jobs. It’s just that most of the jobs they create are in the industries that supply materials, supplies and equipment to the program rather than in the program itself. This may be fine during a deep and prolonged economic contraction like the 1930’s, when job shortages exist in all sectors of the economy over many years. But capital-intensive projects are hard to target on particular groups of unemployed workers, and that makes them less suitable for use in a program designed to target unemployed workers whenever and wherever their numbers increase.

The third problem with big infrastructure projects is that the direct employment they provide tends to be geographically concentrated, and that makes them less suitable as a vehicle for providing work to widely dispersed groups of unemployed workers. Big infrastructure projects need not be ruled out in a jobs program designed to secure the right to work, but they can't be the principle focus of the program's activities.

**Isn't There A Danger that Small Community-Based Projects Would Degenerate Into, Or Be Perceived as "Make-Work"?** Yes, this danger does exist. Indeed, no matter how valuable the goods and services produced by the program, critics would assail it as a boondoggle. The only way to counter those attacks would be to make sure the program doesn't deserve the criticism and to carry out an equally concerted and well-orchestrated campaign to publicize the program's accomplishments. The following rules of thumb could guide those efforts.

**(1) Insist on Community Participation in Selecting Projects.** Take advantage of the program's need to create jobs in local communities by requiring public participation in the process of project selection.

**(2) But Don't Leave Project Selection Entirely In Local Hands.** One of the reasons the New Dealers structured their jobs programs the way they did is because they knew local participation was important for their success but also a potential source of corruption. The vast majority of WPA projects were locally sponsored, but they all had to be approved by a federal office of project review. Something like that model should be implemented to weed out ill-conceived or poor-quality projects.

**(3) Be proactive in identifying and rooting out boondoggles.** Insist on close monitoring of project implementation as well as project design. Respond to both incompetence and malfeasance quickly and decisively. This is another reason the WPA adopted a model of federal administration of locally-sponsored projects. It made it easier to take corrective action quickly when implementation problems arose.

**(4) Put a plaque on it.** Link the program in the public's mind with the New Deal's jobs programs by cataloguing and publicizing the accomplishments of the New Deal Jobs programs. Make sure the public knows how many CCC, WPA, and PWA projects are still being used and enjoyed. Then treat the accomplishments of the new program as adding to that list. Mark each project's launch and milestone accomplishments with public ceremonies and use signs and other types of publicity to remind the public of what the program has provided the community.

**(5) Emphasize the "twofer" effect of Program Projects.** The substance of leaf-raking claims is that job programs waste tax payer money—money that could be better spent elsewhere if not left in the pockets of tax payers. This legitimate concern about waste can be answered by emphasizing the "twofer" effect of a direct job creation program (as in two-for-the-price-of-one). The program's primary goal is to insure that everyone can have a job regardless of the state of the economy. This "insurance" function serves everyone's interest in the same way that other types of insurance serve everyone's interest. It's there if you need it; it makes you feel more secure even if you never need it; and no one has to worry that people who suffer an insured loss will be left out in the cold. But unlike other types of insurance, which merely redistribute income from policy holders who don't suffer an insured loss to those who do, a direct job-creation program actually increases the community's wealth. It does this by utilizing a resource (unemployed workers) that otherwise would be idle.

Because of this "twofer" effect (creating additional wealth while performing an insurance function) a direct job creation program provides two dollars worth of benefits for every dollar tax payers spend on



it. Maybe you would like poor people to have jobs but you also would like to spend the money it would cost to create those jobs building more affordable housing for the poor. Fine, give poor people jobs building affordable housing. Maybe you would like to secure the right to work, but you would like to spend the money it would cost to secure that right expanding the availability of child care for already employed workers. Fine, create jobs for unemployed workers providing child care for all workers. Once grasped, the point is a powerful one. Rather than wasting taxpayer money, the New Deal strategy constitutes an extremely cost-effective way to allocate government expenditures. The twofer effect is like a free lunch.

**But Is It Realistic to Expect the Unemployed to Perform Adequately In Jobs Especially Created for Them – Given the Personal Problems and Skills Deficits from which They Suffer?** A jobs program like the one I have described would have to offer job training to participants who needed it and a range of services to address their personal problems, but there's no reason to view this need as a barrier to the program's success. At the end of the 1930s there was much handwringing in both the popular and scholarly media about the nation's "unemployables" – people whose ability to function in a job was thought to have been destroyed by years of joblessness. Yet when jobs became available during World War II, the overwhelming majority of this population of presumed "unemployables" showed themselves quite able to go to work.

There may be people with problems so severe that they can't function satisfactorily in a normal work environment, and those individuals need and deserve special help. But there's no reason to believe that this is true of the unemployed in general or even a significant proportion of their number. Unemployment is caused by a lack of jobs. A lack of skills, a poor attitude, or invidious discrimination may explain who will be left standing at the end of a round of labor-market musical chairs, but the why of their joblessness is explained by the economy's job gap as surely as the reason people are left standing at the end of a genuine game of musical chairs is because there aren't enough chairs for everyone to sit down.

Finally, most of the problems that interfere with an individual's ability to function in the workplace would be easier for the individual to overcome if they were guaranteed ready access to decent work.

**What Would Program Participants Be Paid?** My cost estimate is based on the assumption that program participants would be paid approximately the same wage that persons with similar qualifications reasonably expect to receive as new hires in the regular labor market. Unemployed school teachers would receive the same wage that school teachers with similar educational backgrounds, skills and experience receive when teaching jobs become available in the regular labor market. Unemployed factory workers would receive the same wage that factory workers with similar educational backgrounds, skills and experience receive when factory jobs become available in the regular labor market. And unemployed high school graduates entering the labor market for the first time would receive the same wage that high school graduates with the same skills and experience receive when jobs become available for them in the regular labor market.

This does not mean that individual program participants would be guaranteed the same wage they enjoyed in their last job. They might be qualified for a higher paying job than the one they last held, but it's also possible that they were lucky enough to be employed in a job that paid more than the going rate for persons with their qualifications. An increase or decrease in wages also might occur because of the program's inability to place all participants in jobs that closely matched the skill and experience requirements of their former employment. Finally, as is true of public sector employment generally, the

program would not pay higher-level managerial employees as much as they could command in the private sector if jobs were available for them there. Instead higher-level managerial positions would pay wages comparable to those paid similarly qualified managers in the public sector itself.

**Could a Program That Paid Market Wages Guarantee People A “Living Wage”?** Article 23(3) of the Universal Declaration states that

Everyone who works has the right to just and favorable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection.

This requirement means that a job program designed to secure the right to work would have to insure more than just the availability of enough jobs to provide paid employment for everyone who want it. The program also would have to guarantee that that everyone who accepted such employment could earn what progressives commonly refer to as a “living wage.”

The living-wage standard I adopted for my modeling exercise is the Family Economic Self Sufficiency (FESS) standard developed by Wider Opportunities for Women (WOW) to provide realistic estimates of the minimum total income needs of working families of various sizes and compositions based on the actual cost of living where they reside.<sup>3</sup> For example, the annualized FESS for a three-person family consisting of a full-time worker, one school-age child, and one pre-school aged child is about \$56,500 in the most expensive county in the state of Pennsylvania and about \$30,800 in the least expensive county in the same state. Since some people with this level of need would be able to qualify for no more than a minimum-wage job, substantial subsidies would be required to guarantee all workers an adequate standard of living—the “other means of social protection” referenced in Article 23(3) of the Universal Declaration.

My model is designed to guarantee the FESS standard of living through a combination of employee benefits (health insurance and child care) and government transfers (the Earned Income Tax Credit, Supplemental Nutrition Assistance Program benefits, and Section VIII housing vouchers) to supplement the wages the program would pay. The model also assumes that job training could and should be offered on a priority basis to persons with significant family support responsibilities, with a guaranteed placement in a higher-paying job utilizing the skills acquired in the training program. Some of the social welfare benefits identified above would have to be adjusted, and in the case of Section VIII housing vouchers the program would have to be turned into an entitlement, but I have tried to incorporate the cost of these changes into my model.

Finally, it is important to note that except for health insurance benefits (the cost of which is included only for program participants) my model incorporates the cost of providing these benefits to all workers—whether they are employed in regular jobs or in the jobs program. This is necessary because the goal of the program is not just to secure the right to work and income security of job program participants, but of all persons.

**What Benefits Would Program Participants Receive?** My cost estimate assumes that program participants would receive the same health care benefits, sick leave and vacation benefits as other federal government employees. I also assume that program jobs would be treated the same as any

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<sup>3</sup> See <http://www.wowonline.org/>.

other paid employment for tax purposes and Social Security entitlement. This means program wages would be fully taxable, and the program would pay the employer's share of FICA and Medicare taxes for the individuals it employed. I also have assumed that program participants would be given the same pension benefits as other federal government employees employed for relatively short periods of time (i.e., less than 3 years). Finally, I have assumed that program participants would receive free or reduced price child care in centers operated by the program itself.

I realize that this package of benefits is more generous than most private sector employers provide for their employees, and this difference would put pressure on those employers to improve their benefit packages. Care would have to be exercised to insure that this pressure did not impose undue burdens on smaller businesses. Assuming that the same child care services offered to program participants would be offered to all workers, the only important benefit that it would be hard for significant numbers of private employers to pay would be health insurance, but that gap should be filled over the next several years by the health insurance reforms recently enacted by Congress.

**How Many Jobs Would the Program Have to Create?** The number of jobs the program would have to create to provide "employment assurance" to all job seekers would vary over the course of the business cycle. It also is important to understand that jobs would be needed not only for those persons who are counted as unemployed in government statistics, but also for two other groups. The first consists of involuntary part-time workers—persons who are working part-time not by choice but because they have been unable to find full-time jobs or have had their normal hours cut. The second group consists of so-called discouraged workers, though I use the term more broadly than the definition employed in government statistics. These are people who say they want a job and report themselves as ready, willing and able to begin working, but are not actively seeking a job because they think there are no jobs available or because they think employers would not hire them. On the other hand, there are some persons who are either employed or want jobs only because other members of their household are unemployed or underemployed. If the right to work was secured for all persons, some of these latter individuals would elect not to work. Finally, the creation of enough jobs to insure the availability of paid employment for everyone who wants it does not mean the unemployment rate would be driven to zero. Even if jobs were plentiful, it takes time for job seekers who want employment and employers who have vacant jobs to find and assess one another. Unemployment attributable to this job "matching" activity rather than a shortage of jobs has been termed "frictional" by economists, and the best available evidence suggests that the rate of genuinely frictional unemployment in an economy with no shortage of jobs will be 2 percent or less. My estimate of job program cost tries to account for all of these factors in estimating the number of jobs that would have to be created and filled to secure the right to work.

**Wouldn't the Program be Inflationary If It Were Continued After the Recession is Over?** One of the advantages of the New Deal strategy of responding to a recession is that it is equally well suited to securing the right to work and income support at the top of the business cycle because it would not have the same inflationary effect as the Keynesian strategy for creating jobs. There are three reasons for this difference. First, the New Deal strategy allows for the achievement of full employment without the increase in aggregate demand that would be required to achieve that goal using private sector hiring at the top of the business cycle. Second, the job-creation effect of the New Deal strategy naturally targets communities with high rates of unemployment while minimizing the fiscal stimulus delivered to communities and industries that already are fully employed. Third, the job programs upon which the New Deal strategy relies to achieve full employment would help stabilize wages, and hence prices, at the

top of the business cycle because of the “buffer-stock” effect of having qualified and experienced program participants available for hire by private sector firms at stable wage levels. See Harvey (2006).

### The Cost of the New Deal Strategy

Table 1 summarizes my preliminary estimate of what it would have cost to implement and fund the New Deal Strategy described above in the United States in 2009.

| <b>TABLE 1</b>  |                   |
|---|-------------------|
| <b>Cost of Implementing New Deal Strategy, 2009</b>       |                   |
| (millions, except for hourly wage)                        |                   |
| <b>Direct Job Creation Component</b>                      |                   |
| Full Time Equivalent Jobs Needed                          | 17.5              |
| Estimated Avg. Hourly Wage of Full-Time Program Employees | \$ 14.41          |
| Estimated Avg. Hourly Wage of Part-Time Program Employees | \$ 11.30          |
| Annual Wage Bill  | \$ 571,581        |
| Federal Employees Health Insurance Benefits               | \$ 101,011        |
| Non-Labor Costs (space, materials, transportation, etc.)  | \$ 190,527        |
| <b>Total Jobs Program Budget</b>                          | <b>\$ 863,119</b> |
| Payroll & Income Taxes Receipts Included in Wage Bill     | \$ (105,808)      |
| UI Expenditures Replaced by Job Guarantee                 | \$ (138,767)      |
| Medicaid and CHIP Expenditures Replaced by FEHB           | \$ (43,898)       |
| <b>Net Cost of Direct Job Creation Program</b>            | <b>\$ 574,647</b> |
| <b>Income Assistance Component</b>                        |                   |
| Increased SSI Expenditures                                | \$ 41,809         |
| Increased Section VIII Expenditures                       | \$ 50,000         |
| <b>Total Increase in Income Assistance Expenditures</b>   | <b>\$ 91,809</b>  |
| <b>TOTAL NET PROGRAM COST</b>                             | <b>\$ 666,456</b> |

The table overstates the actual cost of the strategy for several reasons. Most importantly, my estimate does not take into consideration either the program’s countercyclical effect. As explained above, the New Deal strategy would tend to lessen the severity of recessions, thereby reducing the number of lost jobs the government would have to replace; and the economic stimulus furnished by program spending during a recession would tend to have the same secondary job-creation effect as other forms of stimulus spending. My estimate does not take into consideration either of these cost-reducing effects. Second, my estimate of program cost assumes that all program output would be distributed for free rather than sold to governments or the public. This is an assumption that is neither necessary nor desirable. If the goods and services produced by the program were sold, even at steeply discounted prices, it would reduce the funding burden of the program substantially. Third, my estimate

is a preliminary one that deliberately overstates uncertain elements of program cost. Finally, it is important to remember that the cost estimate reported in Table 1 is for 2009 only. The average cost of the program over the entire course of the business cycle would be substantially less on average. In fact, my estimate of the cost of a similar program between 1977 and 1986 suggests that the New Deal strategy would actually save tax payers money over the entire course of the business cycle rather than costing them money.

That said, the most noteworthy feature of the estimate reported in Table 1 is how much less the New Deal strategy would have cost and how much more dramatic its positive social effects would have been than the Keynesian strategy the Obama administration and Congress decided to pursue. Given this contrast, the failure of progressives to appreciate the advantages of an anti-cyclical policy modeled on the economic and social human rights commitments promoted by their predecessors in the New Deal era is quite simply a shame.

## **References To Be Added**