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## Public policy towards unemployment: 1937-1941

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**PUBLIC POLICY TOWARDS UNEMPLOYMENT: 1937 - 1941**

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TABLE OF CONTENTS

INTRODUCTION . . . . .	1
THE RISE OF FEDERAL RELIEF . . . . .	4
ALPHABET AGENCIES . . . . .	11
THE EROSION OF ISOLATIONISM: 1936-1941 . . . . .	18
FISCAL AND MONETARY POLICIES . . . . .	24
THE WPA: 1937-1941 . . . . .	29
CONCLUSIONS . . . . .	49
APPENDIX . . . . .	52
BIBLIOGRAPHY . . . . .	54

## INTRODUCTION

From 1931 to 1938, the problem of unemployment occupied the mind of every American policymaker. Each Presidential request and Congressional vote was focused on industrial recovery and putting the millions of unemployed Americans back to work. Roosevelt, through his many New Deal programs, was able to substantially decrease the number of men and women out of work. When Roosevelt took office in 1933, the unemployment rate stood at approximately 25% and as he began his second term, that number had dropped to 14%. This decrease was due primarily to federal programs, such as the Works Progress Administration and the Civilian Conservation Corps, as well as a minor upswing in the business cycle. Unfortunately, New Deal programs enjoyed only limited success and the problem of unemployment was not completely solved until 1942, when the huge deficit expenditures on armaments and munitions drove the unemployment rate below 3%.

Between January of 1937 when Roosevelt began his second term and February of 1941 when the first appropriations were made for the Lend-Lease Act, unemployment rates were as high as 19%. During the

years prior to the attack on Pearl Harbor, the problem of unemployment faded from the national agenda due to the controversy rising between the isolationists who were opposed to any involvement in European affairs and those in favor of a mobilization effort to prepare the United States for war. The attention of the Roosevelt administration was gradually turned from domestic to international concerns.

The problem of unemployment during the years that separate the major New Deal programs and the beginning of World War II has been overlooked by historians. This period of time was one of transition for the American economy, especially after the recession of 1938. Most scholarly work has focused on the New Deal, which preceded the 1937-1941 time period, or the war years that followed it. The period from March of 1937 to February of 1941 presents many interesting questions regarding the goals and intentions of the Roosevelt administration. Roosevelt was faced with a difficult situation. He was unable to emphasize domestic programs because much of his attention was focused on the problems arising on the international scene, yet little could be done in Europe or Asia due to the power

of the isolationist movement. Exploring the public policies of this period will provide an insight to the causes of the high unemployment levels and any methods used to combat the problem, as well as focus attention on the politics of the era.

The following essay will examine what type of public policy, if any, was pursued to combat the high levels of unemployment that plagued the American economy from early 1937 until the signing of the Lend-Lease Act in 1941. The writer will attempt to explain why Roosevelt failed to bring unemployment to a more acceptable level during these years. The following chapters include detailed analysis of federal relief programs, the isolationist movement, fiscal and monetary policy, all vital components of public policy towards unemployment.

## RISE OF FEDERAL RELIEF

In March of 1933, nearly 13 million Americans-- about one quarter of the labor force--were desperately seeking jobs. The nation had put its hope in the newly elected President, Franklin Roosevelt. On the day of his inauguration, doors of every American bank were locked. The system of providing for the unemployed was near collapse. Many were questioning whether capitalism would survive this crisis and one cannot understate the need for action. The New Deal launched a series of experiments in agriculture, industrial, commercial and monetary policy. These programs were addressed both to the immediate task of recovery and to the larger task of reconstruction. With private aid exhausted, the only hope for the millions of unemployed was a federal relief program.

The first priority was the banking system. Before any other problems could be addressed, it was imperative to restore confidence in the financial system. Roosevelt attacked the problem by calling a special session of Congress and declaring a bank holiday. The Administration bought themselves time in order to develop a plan for reviving the banking

system. On March 9, five frenzied days after the inauguration, Congress convened, and was presented with emergency banking legislation. Debate was limited in both the House and Senate chambers, and within a few hours, the bill was passed and sent on to the White House. The urgency of the situation was obvious from the extraordinary speed and decision with which Congress had acted.

The Emergency Banking Act of 1933 was the first in a wave of ideas and programs flowing from the executive branch in the first 100 days of the new administration. The banking legislation was followed by the establishment of the Civilian Conservation Corps (CCC), a program designed to put young people back to work. The Federal Emergency Relief Act (FERA) set up a national relief system to rescue the failing private system. FERA was the first effort to provide jobs for the unemployed. An attempt to meet the needs of the agricultural population was made through the Agriculture Adjustment Act, the Emergency Farm Mortgage Act and the Farm Credit Act. The Truth-in-Securities Act and the Glass-Steagall Banking Act addressed problems in the stock markets (Schlesinger, 20-22 vol.



2). In the first 100 days, virtually all troubled areas of the economy were touched by the Federal government, including the overwhelming problem of unemployment.

A substantial attempt to reduce unemployment was also made when the National Industrial Recovery Act (NIRA) was passed in June of 1933. This two-part program provided both for a system of industrial self-government under federal supervision and for a \$3.3 billion public works program (Schlesinger, 21, vol. 2). The goal of this program was to put people back to work and to raise purchasing power by limiting working hours and increasing wages.

Although NIRA had many problems and was not popular with businessmen who hated the collective bargaining provision, it provided a psychological stimulus to the American population. Working conditions were improved and, more importantly, new jobs were created. The \$3.3 billion appropriation established the Public Works Administration (PWA) under Title II of the NIRA (Schlesinger, 99, vol. 2). Initiating its own projects, the PWA offered a combination of loans and

grants to states and other bodies to stimulate non-federal construction. Urban improvement programs such as sewage systems, gas and electrical plants, schools and courthouses sought to reduce the unemployed ranks of the population. The PWA also undertook naval rebuilding projects. It also helped to modernize more than 50 military airports, gave planes to the Air Corps and improved 32 Army posts. In 1935, however, PWA's direct contribution to defense came to an end when Congress, on the demand of Senator Borah of Idaho, expressly forbade the use of appropriations for any type of military or naval materials (Schlesinger, 288, vol. 2). PWA alone could not eliminate the unemployment problem, but it left behind a wonderfully improved situation.

In 1935, Roosevelt decided to refocus the relief efforts and create a new agency. The PWA was employing nearly half-a-million people on socially desirable projects. The problem was that the Ickes administration was often too slow and meticulous for Roosevelt's liking. The President wanted speed, flexibility and quick re-employment. The new agency, Works Progress Administration, would be funded through

FERA and undertake lighter public works projects that required less planning and administrative delays than the PWA projects. Ickes felt the accomplishments of his organization were being disregarded and conflicts arose over which agency would lead the relief effort. After a heated political struggle of personalities, involving Ickes, PWA Administrator and Hopkins, the new WPA Administrator, the Works Progress Administration (WPA) emerged as the primary agency in the fight against unemployment. Relief appropriations for that year totaled \$4.8 billion, of which PWA received only \$500 million (Schlesinger, 349, vol. 3). Roosevelt's goal was to employ as many men as possible from the relief roles at the lowest cost possible. A month's employment on WPA cost only \$82, whereas employment for the same period on PWA cost the government \$330 (Schlesinger, 349, vol. 3). Over the next eight years, the WPA received a total of \$11.4 billion in appropriations and gave work and wages to approximately 8.5 million people (Sitkoff, 73).

The WPA, under Hopkins' guidance, assumed coordination responsibilities for the 40 other relief agencies. Roosevelt had tried to console Ickes by

saying the two agencies would work side-by-side, but by the end of 1935, PWA, and Ickes, had been phased out of all decision-making areas. WPA would now oversee all work programs and act as a filter for Congressional appropriations. After funding WPA-sponsored projects, Hopkins distributed remaining funds to the various agencies, including PWA.

In 1943, when WPA was dismantled, Roosevelt claimed "It has added to the national wealth," he said "it has repaired the wastage of depression, and has strengthened the country to bear the burden of war." Roosevelt's words imply the important role the WPA played in maintaining the moral and work ethic of the citizens. Although the unemployment rate was still as high as 14% in early 1941, the WPA did have a positive impact on American workers. Without such programs, the United States would have lost many strong, able people to poverty and hunger.

This overview of the major relief legislation will provide the basis for a detailed examination of the public policy towards unemployment from 1937-1941. The complexity of relief problems arose in part from the differences in the kinds of persons who required

relief, variations of individual needs and fluctuations in public attitudes. The following chapter will describe the numerous "alphabet agencies" whose relief focused on the needs of specific groups within the population.

### ALPHABET AGENCIES

In addition to the major relief efforts described, the first stage of Roosevelt's New Deal entailed a host of alphabet agencies designed to meet the needs of the unemployed. Some targeted specific groups such as young people, while others provided assistance to the unemployed. The NYA, CCC, CWA and Social Security Act attempted to reduce the hardship of the unemployed, but none of these organizations were designed to actually decrease the unemployment rate.

The National Youth Administration (NYA) and the Civilian Conservation Corps (CCC) were organizations developed to meet the needs of American youth. In the days prior to mechanization, a youth with strength and ambition had little difficulty finding employment. Gradually, in both agriculture and manufacturing, human strength was replaced with machines (Meriam, 428). Education assumed increased importance as a factor in distinguishing individuals for available employment. The depression years intensified the problems. Young people were being forced from school to help support themselves and their families, yet without an adequate education it was difficult to find any employment. The

federal government recognized the importance of educated youth and set up organizations such as the NYA and CCC to allow these young people to remain in school.

The NYA, a subsidiary of the WPA, gave employment on work projects to 2.5 million out-of-school youth aged 16 to 25, and funded part-time work projects that allowed 2 million young people to remain in school. NYA employed college students in museums, libraries and laboratories. The program allowed many high-school-age youth to remain in school who otherwise would have been forced to look for work to help support their families.

NYA benefits were not intended to do more than cover part of the youth's own expenses. Nevertheless, these meager wages meant the family income was not spread as thin as it otherwise would have been. Limits were set as to the maximum amount that could be earned by students in a month. When the programs first went into effect, the monthly limits were as follows: high-school students, \$6.00; college students, \$20.00; and graduate students could earn no more than \$40.00 per month.

The NYA continued to assist students until 1943. At that time the agency was dissolved, for all resources were needed to help in the war effort and there were ample opportunities for employment.

During his first month in office, President Roosevelt signed the executive order establishing the Civilian Conservation Corps (CCC), the longest-lived New Deal unemployment relief program (Sitkoff, 70). In its first months, the CCC enrolled 250,000 young men aged 17 to 23 and put them to work on reforestation, soil conservation and similar projects in parks and forests at approximately 1,400 camps across the United States. These men received \$30 a month, \$25 of which was allotted to dependents, plus food, shelter, clothing, and medical attention. After the program had been in operation some time, opportunities for general educational and vocational training were also made available.

When the program came to an end in June 1942, more than 2.5 million youth had served in the CCC; enrollment hit a peak of 500,000 in August 1935 and a low point of 240,000 in March 1937. As late as 1940,



more young men entered the Corps each year than entered colleges and universities as freshmen (Sitkoff, 71).

Neither the NYA nor the CCC had any real effect on the unemployment rate. Both programs took young people out of the labor force, the NYA by allowing students to remain in school rather than seeking employment, and the CCC by putting young men to work in conservation camps. One might say by withholding potential workers from the labor force, these organizations indirectly helped keep unemployment from increasing further.

In November 1933, Roosevelt announced the establishment of the Civil Works Administration (CWA), a branch of the Federal Emergency Relief Act. The program was intended to take approximately four million people off relief, at least during the winter of 1933-1934. The CWA was in operation for only four months, during which almost 180,000 construction projects were created. The total cost of the CWA was just under one billion, nearly 80% of which went for wages (Sitkoff, 72).

Although the 1935 Social Security Act did nothing to directly reduce the unemployment rate, certain portions of the Act did affect unemployed Americans.

The Social Security Act provided incentives to states to establish unemployment insurance programs which met certain standards and conditions. Each state adopted a program approved under the Social Security Act, yet there was a wide variation among the states with reference to specific provisions. In general, the unemployment insurance program could be summarized as follows: the Federal government imposed a tax on all industrial and commercial employers of four or more; if the states levied taxes to support an approved state plan, such state taxes were credited against a portion of the Federal tax; each state was free to establish its own program if it complied to certain Federal requirements; the portion of the tax which was remitted to the Federal government was placed in the general revenues. The state taxes were placed in state reserve funds in the Federal Treasury. From these funds, the states made weekly payments to unemployed persons for periods generally ranging from 26 to 39 weeks in varying amounts (Schottland, 80-81).

Although the states had certain general patterns of coverage because of provisions in the Federal law, there was great variation in eligibility for benefits

and benefit amounts, since each state was free to determine the eligibility requirements and the amount of compensation. Generally, for a person to be eligible for unemployment insurance benefits, he/she must be unemployed, able and available for work, and actively seeking such work. In addition, the person must not have left a job voluntarily, been discharged for misconduct, be unemployed because of a strike, lockout or other labor dispute, or have refused any offer for suitable employment (Schottland, 84). To be eligible for benefits, a worker must also show that he/she was employed in covered employment for the required length of time, called the "base period", or have earned a minimum amount in that period, or both.

Unemployed workers' eligibility for unemployment insurance was affected by their eligibility for WPA employment. Unemployed workers who were eligible to receive unemployment compensation benefits were normally ineligible for WPA employment, both during the waiting period and during the period for which benefits are payable. Early in 1942, however, federal policy was revised and workers were allowed WPA employment during a waiting period preceding the receipt of such

benefits (Howard, 435). Prior to this change, workers who were forced to accept unemployment compensation benefits, rather than allowed WPA jobs, received a stipend which normally amounted to only about half a worker's usual wages. In a survey of the period June to August 1939, figures show unemployment benefits below the average WPA wages in all but three states (Howard, 440).

As noted earlier, these programs had little or no effect on the actual unemployment rate. Academic literature indicates that programs, such as NYA, CCC and unemployment insurance, were intended mainly as a psychological stimulus to the nation's young people, the generation that would eventually lead the country to a position of world power. This is not to say that efforts were not being taken to reduce unemployment, but there were several strong forces working against Roosevelt' employment efforts.

### THE EROSION OF ISOLATIONISM: 1936-1941

In addition to the emergency legislation and New Deal federal programs, another force was helping to shape domestic relief efforts. After World War I, government leaders pledged a foreign policy of isolationism. During the decade separating the war and the stock market crash of 1929, Americans adhered strictly to isolationist sentiments. This policy was strengthened by the crash and the ensuing depression. Many believed that solutions to the economic downturn could be found only at home. Government leaders intended to focus their attentions and the country's resources on economic recovery.

Towards the end of Roosevelt's first term, his speeches began to indicate a renewed concern with foreign affairs. His remarks regarding events in Europe had to be kept to a minimum because of the historically strong isolationist feelings. Roosevelt slowly tried to move the nation away from such adamant isolationist attitudes.

In the mid-1930s, isolationism played a major role in shaping America's foreign policy. Approval of the Neutrality Act in 1935 strengthened the isolationist

movement. The Act severely limited the powers of the executive branch to take action quickly as situations arose. President Roosevelt, shortly after the Neutrality Act was in place, remarked that the difficulty of predicting future events warranted a more flexible program and that the strict provisions of the Neutrality Act might drag us into war rather than keeping us out, yet he still had to operate within this framework (Beard, 166).

Until 1936, Roosevelt supported the Neutrality Act. Up to this point the President's messages and speeches contained virtually no reference to foreign affairs. Roosevelt's address to Congress in January of 1936 took a sharp turn towards acknowledging the tensions rising across the Atlantic (Beard, 167). The foreign policy of the next five years would evolve within the framework of a gradual evolution of public opinion in the United States away from isolationism.

In early 1937, buoyed by the 1936 election, Roosevelt publicly announced no reversal of his neutrality policy with regard to European affairs, yet he took actions which, to Congressional leaders and other political observers, had the appearance of

increased intervention in foreign affairs. Examples of this shift are evident in his policies toward the Spanish Civil War and the Sino-Japanese War (Beard, 181). By October of 1937, the President could no longer advocate neutrality. In an address on the world situation in Chicago, the President formally disavowed the doctrine of neutrality and espoused collective security (Beard, 187).

Despite the implications of the Chicago address, Roosevelt made no changes in foreign policy during the remainder of 1937. Internationalists charge that strong isolationist sentiments in Congress were responsible for the lack of immediate action. It appears that Roosevelt, realizing the severity of the European situation, sought mainly to prepare the country for necessary changes in the future.

In January of 1938, Roosevelt sent a special message to Congress calling for an increase in naval armaments and for legislation aimed at preventing profiteering in war time (Beard, 212). Isolationists viewed this proposal as a means to underwrite or implement the principles set forth in the Chicago speech. After prolonged debate, the Naval

Authorization bill passed, but isolationists in Congress blocked the war profiteering sections, as well as those for establishing universal military service. These events, meager as they seem today, were the sum total of the 1938 foreign policy debate, leaving isolationism the predominant goal.

Roosevelt began 1939 with emotional speeches emphasizing the need for greater preparedness for defense. He appealed to the public by claiming that foreign aggression was directly challenging American religious beliefs, democracy and international good faith. While European powers were embroiled in events which would lead to a general war, the subject of American neutrality and non-intervention became the storm center of a national controversy. The controversy turned on proposals to revise or abandon the Neutrality Act, particularly those sections placing an embargo on arms sales. In November, the embargo was repealed, but it was coupled with other amendments which materially strengthened the neutrality legislation. Not until Germany invaded Poland in 1939, did the Roosevelt Administration invoke real trade-war measures; freezing German assets and putting



permanently high important duties on its goods, using licenses and subsidies to force American firms to break their ties with German firms in the Balkans and Latin America, and taking over vital transportation and communication routes (Sitkoff, 190). The German invasion fueled isolationists' desire for neutrality. They believed any involvement at this point would lead to eventual deployment of American troops.

Roosevelt was determined to support the allied nations of Europe against Nazi aggression. His task was to devise a plan for assistance the isolationists would support. In 1940 and 1941, Roosevelt was struggling for passage of the Lend-Lease Act, which would authorize the United States to sell, lend, lease or transfer title of munitions to nations whose defense the President deemed vital to that of the United States. Roosevelt described the plan as a release of equipment that was not vital to American defense and which would supposedly be returned after the war. His request fell on sympathetic ears; two months later Congress appropriated \$7 billion for the Lend-Lease Program. Critics fought this bill on the grounds that it would lead to dictatorship and war. Isolationists

also questioned whether England was as desperate as she claimed to be, pointing to her enormous assets outside the United States that could be converted to dollars. They claimed the appropriated dollars could be put to more productive uses in the United States by assisting in the economic recovery or reducing the national debt.

With the benefit of hindsight, we can see that had isolationists beliefs been shed earlier and the war efforts begun sooner, the unemployment problem could have been eliminated before 1942. Full employment was reached soon after the United States joined the war effort; therefore, one can assume the effect would have been the same regardless of when the defense buildup started. Isolationists believed that withholding financial aid from our European allies would allow for faster resolution of domestic problems, namely unemployment. They failed to see the benefits participation would provide the domestic economy.

## FISCAL AND MONETARY POLICIES

Between 1937 and 1941, the forces of fiscal and monetary powers were also affecting the rate of economic recovery and the unemployment rate. To understand the changes taking place during this period, we must briefly refer to the developments of the early 1930s.

Roosevelt had formulated no definite fiscal policies before becoming President. His main goal, he claimed during the 1932 election, was to put the government's financial house in order. Roosevelt excoriated Hoover repeatedly for his budget deficits and the subsequent threat to the government's credit. Despite Roosevelt's commitment to a balanced budget, there were deficits every year of his Presidency. The deficits were incurred primarily because he valued so highly the benefits of the work programs for which expenditures were increased.

It is significant that tax rates were never decreased under Roosevelt; in fact, they were increased well before the end of the depression (Chandler, 252). Moreover, expenditure increases were undertaken primarily because of benefits to the recipients, such

as the unemployed and farmers. There were some references to their general contributions to incomes and purchasing power. However, expenditure increases were oriented towards specific relief programs, such as the WPA, and on a whole, were inadequate to raise aggregate demand to full employment levels.

Fiscal policies of the late 1930s were not strongly expansionary in nature, and they did not help to lower the unemployment rate. Of course, fiscal policy could have been worse, had Roosevelt really tried to achieve an annually balanced budget. To achieve his goal, effective tax rates would have been raised and government expenditures decreased.

In the monetary realm, of basic importance were the additions to the monetary base and improvements in the reserve position of the banking system. The reserve position of the banking system was enhanced by the purchase of government securities by the Fed in 1933. From 1933-1936, the Fed played a rather insignificant role in monetary policy. The government seized the initiative and took bold actions in the monetary area and many others. One of the greatest contributions was the "golden avalanche". The monetary

gold stock was increased consistently from 1933 to 1941. Further funds, almost \$1 billion, were supplied by increases in outstanding Treasury currency; these resulted largely from Treasury purchases of silver for monetary purposes (Chandler, 255). These huge increases enabled banks to retire virtually all their borrowing at the Fed and to increase their total and excess reserves.

Following these expansionary steps, the Fed re-emerged as a player in monetary policy. The most controversial actions taken by the Fed during this period were its two increases of member bank reserve requirements. The first increase, which became effective on August 16, 1936, increased reserve requirements by 50%. The second increase, half of which became effective on March 1, 1937 and the other half on May 1, raised the requirements to the limit permitted by law (Chandler, 310). The purpose was to remove from the banking system some part of the excess reserves that were not currently being used, but which might later serve as a basis for undesired inflation. The first increase had no visible effect on monetary and credit conditions. Bank credit and money supply

continued to expand and interest rates continued downward. Yet it is probably true, as many have alleged, that the second increase played at least a minor role in precipitating the recession of 1937-1938.

In retrospect, the increase of reserve requirements in the spring of 1937 was a mistake--a mistake stemming from erroneous economic forecasting and an underestimate of the demands of the banking system for excess reserves. Interest rates rose almost immediately and security prices fell. Though the recession lasted only 13 months, it was severe. Industrial production and factory employment fell by at least a quarter, eliminating virtually all recovery progress that had taken place.

After the excess reserves had been severely reduced, the Fed began to ease restrictions. Late in 1937, the discount rate was lowered and the regulations regarding Federal Reserves discounts and advances were liberalized. Roosevelt announced recovery measures for 1938 and requested a lowering of reserve requirements. The next day, April 15, 1938, the Board of Governors reduced reserve requirements against all classes of deposits at member banks, thus creating about \$750

million of excess reserves (Chandler, 330). These requirements remained unchanged until November 1941.

It is difficult to say why the recovery was disappointingly slow and incomplete. There were many public policy vehicles working towards the same ultimate goal, but they unfortunately had opposing intermediate effects. The unemployment rate was influenced, either directly or indirectly, by monetary and fiscal policies, the isolationist movement and most importantly, the federal relief efforts. From the beginning of the Roosevelt Presidency, federal work programs were the mainstay of efforts aimed at reducing unemployment. The WPA, although not established until 1935, was the leader of the federal work programs. It was more successful in providing jobs for the unemployed than any other policy measure available.

## THE WPA: 1937-1941

Efforts to reduce unemployment began almost immediately after Roosevelt took office in 1933. During the first hundred days, the Federal Emergency Relief Administration was established by a bill which passed the Senate by a vote of 55 to 17 and the House three weeks later by 316 to 42 (Schlesinger, 265, vol. 2). Under the direction of Harry Hopkins, the program began with \$500 million for grants-in-aid to states.

In 1935, Roosevelt set up a new agency known as the Works Progress Administration, which was basically the FERA renamed. Roosevelt made this transformation because he believed the current program, PWA, had become inefficient. Roosevelt had lost confidence in Ickes, Administrator of the PWA, and wanted to move him to a position with less responsibility.

Before the transformation took place, there were several other forces combating unemployment. A section of the National Industrial Recovery Act provided \$3.3 billion for the establishment of a works program. The PWA originated under this appropriation. Programs such as the CCC and NYA also had minor effects on the unemployment situation. These program removed young



people from the work force, thereby preventing a further rise in unemployment. The PWA and the WPA undertook similar sorts of work projects. Neither program eliminated the unemployment problem, but the WPA enjoyed more success than the PWA, mainly because they received larger amounts of money and Hopkins proved to be a more effective administrator than did Ickes.

The Works Project Administration (originally Works Progress Administration) was created in 1935 by an executive order from Roosevelt. WPA was intended to be a flexible, administrative agency whose chief role would be that of coordinator for other federal agencies, such as PWA, CCC, NYA and Bureau of Public Roads. Between 1935 and 1943, the WPA received more funds than any other agency, and consequently supplied more jobs than any other agency.

The WPA was built upon a series of laws enacted by Congress. Each year, the WPA was appropriated funds through the Emergency Relief Acts. For this reason, WPA administrators were never able to plan for more than one year in the future. During its first six years, WPA had to ask Congress for money nine times to

continue its operations. Unemployment was being treated on an emergency basis, even though the problem had persisted for almost a decade. Critics urged the federal government to write into its permanent statutory legislation, a program for providing useful employment for the unemployed, rather than relying on yearly appropriations (Howard, 107). This would allow communities and states to develop more effective plans for the future.

The WPA undertook a variety of projects, from the construction of highways to the extermination of rats. Construction and engineering projects accounted for 75.2% of all the employment provided (Howard, 129). Of the construction and engineering projects, the most important in terms of number of workers employed were highways, roads and street projects. These types of projects accounted for 44% of all workers employed (Howard, 129). At different times during its existence, the WPA was forbidden to be involved in certain types of projects. In 1935, a prohibition against the use of work-related appropriations for munitions or war materials was included in the Emergency Relief Act. No such restrictions were

enforced again until 1939, when isolationist sentiments swept the country. Congressional battles emerged in 1940 over this issue. Though their efforts were not successful, Congressional debate in 1940 and 1941 clearly envisioned an increase in projects undertaken by WPA to further national defense.

A further limitation, designed to prevent competition with free enterprise, was adopted in 1939. A clause was written into the 1939 Emergency Relief Act preventing the use of WPA funds for the purchase, establishment or expansion of factories or stores (Howard, 134). The intention was to keep WPA projects from interfering with the efforts of private industry. Some would say that production activity was the key to solving some problems associated with the federal work program (Howard, 134). The Administration had failed to solve the problem of unemployment after eight years of experimenting and observers gradually accepted the idea that it was time for production to be undertaken, even if this required adjustment on the part of private industry. WPA was subjected to various other restrictions throughout the life of the program. Some

dealt with the size of the projects undertaken, others with sponsorship of projects.

Conditions of eligibility for WPA jobs were modified many times during the life of the agency. Some changes in rules regarding eligibility have been more or less consistent through time. Year after year, the policies of Congress regarding the employment of aliens and the limiting of jobs to workers who are in need became more stringent. At the same time, Congress was allowing more veterans and their dependents on the WPA roles each year. The most basic requirements to be employed by the WPA were that the individual must be seeking work, willing to work, and available to work (Howard, 372).

Since the primary purpose of the WPA was to provide jobs for unemployed workers, the number actually employed from month to month gauge the usefulness of the program (Exhibit 1). Upon examination of these numbers, four phases can be clearly identified, two of increasing employment and two of decreasing employment. The first phase was a period of expansion, which began in 1935, with the founding of the Works Program and ended in February

1936. Here, the second phase began, employment fell steadily, with some minor comebacks, until September of 1937. The third phase began in 1937 and ended in November of 1938 when WPA employment had reached an all-time high of just over three million jobs. From this point, WPA employment fell steadily until the end of 1941.

The decline phase reflects the new emphasis on international policies, as well as the growing concern over the increasing deficit and proposals for a balanced budget. The phase of declining WPA employment began almost immediately after Roosevelt's famous Chicago speech where he disavowed the doctrine of neutrality and urged support for the Allies against German aggression. Though there was no immediate reversal of policy, markets began to sense war production possibilities, which meant new employment opportunities. Pressures for a balanced budget also promulgated the decline phase. After 1938, Roosevelt encountered many obstacles while trying to secure WPA funding. The country pulled out of the short, but severe recession, only to find itself faced with more formidable international problems.

There were many variables involved determining the number of WPA jobs provided in any given year. Congressional appropriations were the primary determinant. Before appropriations were made, the President would look at the likelihood of increases or decreases in private employment when requesting funds. Natural disasters such as floods, drought or hurricanes also affected requests for, and votes on, appropriations. Policymakers attempted to estimate publicly acceptable levels of spending and increases in the national debt.

Because unemployment remained high and the economy sluggish until the United States mobilized for war, the general effect of the WPA is difficult to measure. In the opinion of one noted economist, Stanley Lebergott, the WPA, although not able to end unemployment, did provide a positive stimulus to increase investment and consumption and eventually, economic recovery. He claimed that even more important, WPA jobs helped keep the skills and attitudes of the unemployed from deteriorating completely (McJimsey, 113).

As the depression years passed, administrators of the WPA urged Congress to make WPA a permanent federal

agency. In 1939, steps were taken in that direction by combining various relief programs into a Federal Works Agency. Actions taken reflect the growing belief that high unemployment rates were not a temporary crisis, but an unavoidable economic phenomenon. Soon afterwards, however, the United States entered World War II, and wartime prosperity ended the unemployment crisis.

When Congress convened in January 1937, the President reminded the body that in a 1936 message he had warned the country that the \$1.5 billion appropriated for work relief would prove sufficient only if industry would actively cooperate with government in reducing unemployment (Howard, 571). Roosevelt claimed that in some industries and among certain employers, that the maximum hour stipulation of the National Recovery Act, was being unreasonably increased. By failing to abide by this regulation, firms were denying jobs to unemployed Americans. This, along with the drought conditions in 1936, caused Roosevelt to request an additional \$790 million to carry the works program from February 1937 to June 1937.

In april, the President returned to Congress with a detailed proposal for initiating an economic upswing. The first measure of the proposal called for an increase in relief appropriations in fiscal year 1938. Roosevelt urged Congress to provide the WPA with \$1.25 billion for the first seven months of the year, in order to prevent the required cut back of WPA jobs effective July 1 at the current levels (Congressional Record, April 14, 1937, 5383). Recommendations regarding funds for NYA and CCC were also included in the proposal. All requests wee designed to prevent the layoff of those already receiving assistance.

The second measure requested that additional bank reserves be made available to the public. Roosevelt suggested that the reserve requirement be decreased and that approximately \$1.4 billion in gold be changed to a spendable form. These actions would provide businesses with additional credit, so that they might expand operations and provide new employment opportunities.

Roosevelt's final request called for the creation of new jobs and hence, an increase in purchasing power. This was to be accomplished through expenditures on construction projects scheduled to begin within the



next six months. The public works projects would involve both direct expenditures and loans for construction projects. Roosevelt ended his proposal by emphasizing the need for a "national will" to overcome unemployment. Government and private enterprise must join forces to eliminate the unemployment problem.

The President's proposals met with some criticism by members of Congress. Debates in Congress charged Roosevelt's relief system as being uneconomical, that current relief policies had exhibited waste and extravagance, and that the President was building a permanent and expensive bureaucracy which only complicated and hindered the efforts to reduce unemployment (Congressional Record, May 21, 1937, 4941). Some advocated the need for a drastic reduction in the number of persons receiving relief and elimination of unnecessary administration expenditures by relief agencies. Others suggested turning relief completely over to the states, claiming this was the only way to balance the budget.

Arguments expounded on both sides of the issue. Another group in Congress urged, not reducing government-sponsored work programs, but a reform in the

tax system in order to fund the necessary programs, such as WPA. Debate continued throughout 1937 with no real resolution of a path for future government relief programs. October of 1937 brought with it a downturn in the economy. Policymakers watched the situation, hoping for a turn around. Early in 1938, it was evident the nation was experiencing an economic decline that required immediate action.

In January of 1938, the chairman of the Federal Reserve Board, Marriner S. Eccles, testified before the Committee on Relief and Unemployment that only government intervention could stop the sharp and continued drop in consumer purchasing power (Stark, January 5, 1938, 1). He suggested that wage rates in the building industry were unjustifiably high and should be voluntarily lowered by labor in order to stimulate investment. Increased government spending and a compact between government, industry and labor for lower costs in the construction industry, according to Eccles, would go far towards ending the present recession. Although many legislators were working towards a balanced budget, Eccles told the Committee that the only way to accomplish this, at the present

time, was by increasing taxes, a move that would only fuel the recession.

As the year wore on, there was no improvement in the unemployment rates. Congress, in February, passed HJR 596, making an additional \$250 million available for the relief process (Congressional Record, February 21, 1938, 2210). The supplemental appropriation was to be used during the fiscal year ending June 30, 1938 to sustain the current number of WPA employees and add approximately 500,000 new positions.

Shortly after the supplemental appropriation was in place, Congress began hammering out the details of a bill to carry the relief efforts through the final seven months of 1938. As in 1937, heated debates took place over the amounts and appropriate uses for the funds. Nineteen hundred and thirty-eight saw one new problem emerge. Groups inside and outside the legislature charged WPA with political activity and coercion of workers. Harry L. Hopkins, Director of the WPA, gave a national radio address denying accusations of any political activity within the relief organization. There was no conclusive evidence of such activities and funding was not affected. The

finalized version of the bill provided \$1.425 billion to the WPA to provide an estimated 2.8 million jobs.

The renewed support for WPA programs seemed to pay off during the last quarter of 1938. The economy saw an increase in residential construction and stable prices within the industry (Belair, 1). Hopkins predicted an early curtailment of WPA spending, leading to a permanent reduction because of continued improvements in business conditions.

Between the time of the enactment of the 1938 Emergency Relief Appropriations Act and the beginning of 1939, substantial business and industrial improvement occurred throughout the United States. The improvement was due partially to a reversal in Fed policy. In April of 1938, the Fed lowered reserve requirements at the request of President Roosevelt. Credit was more readily available for firms to borrow and bring displaced staff back to work or hire new workers. Beginning in July of 1938, 125,000 to 150,000 workers were voluntarily leaving WPA projects each month for positions in private industry. Unfortunately, the vacant positions were sought by some 200,000-300,000 individuals whose personal resources or

compensation benefits were exhausted (Congressional Record, January 5, 1938, 84). The WPA received \$725 million for unemployment relief, but Congress cut \$150 million from the original amount requested by President Roosevelt. This was the first time since the birth of the New Deal that a relief appropriation had been reduced by the House.

One reason for Congress tightening the purse strings was the suspected political activities of the WPA. Evidence showed that the number of persons in WPA positions increased dramatically during election years. It is difficult to say whether there was actually a corresponding increase in need at those times. State and local WPA administrators were suspected of coercive behaviors and misuse of federal funds. A great deal of legislation and code amendments were recommended to make political activity impossible. Charges of fraud, discrimination or other political behaviors were now punishable as felonies rather than misdemeanors.

A second reason for Roosevelt's failure to secure the requested amount stems from the increased talk of a balanced budget. Many forces were at work during this session of Congress; but none were more common to the

minds of legislators, than reduced government spending and a balanced budget. The first two weeks of the session indicated that unemployment was being viewed on a more permanent basis for the first time since the crisis began in the early 1930s. In order to accomplish this lofty goal, government was forced to look for more self-liquidating projects.

The third, and probably most important, reason Congress rejected the additional appropriation dealt with the outbreak of war in Europe. Speculation abounded regarding the extent to which the war might alleviate the need for WPA programs (Howard, 573). Government leaders were forced to abandon isolationist views and consider what role the U.S. would play in the European conflict and the effect it would have on our economy.

Battles in Congress during 1939 were very similar to those of previous years. Unemployment remained a grave problem across the country. Policymakers, frustrated by the failure of the past programs, were advocating a federal withdrawal from the area of relief. Many believed it was time to turn the responsibility over to the states and municipalities.

Roosevelt maintained his spend-lend policy of relief. For the fiscal year 1940, he recommended \$1.477 billion be provided for the WPA, together with any balances of the appropriation for the current year which may remain on June 30, 1939 (Congressional Record, April 27, 1939, 4842-4843).

Nineteen hundred and forty brought few changes in the number of unemployed or the relief programs. As in previous years, the initial relief allocation was exhausted long before the end of the fiscal year. Roosevelt, again, was forced to go before Congress requesting additional funds to prevent extensive layoffs. Additional funds in the amount of \$38 million were needed to avoid the WPA ranks being reduced to 1.5 million people, from the current 2.3 million (Congressional Record, March 18, 1940, 3002).

In May 1940, the isolationists exerted their strength and passed a resolution prohibiting the expenditure of 1941 relief funds for construction projects where the total estimated cost exceeded \$50,000 (Congressional Record, May 23, 1940, 6734). This measure was intended to discourage the use of federal funds for projects that would further national

defense. In recent months, attempts had been made to filter WPA funds into defense-related projects. Critics charged this resolution would force the operation of numerous small projects of doubtful value. To this group, military expenditures appeared to be a likely solution to the unemployment problem. Isolationists responded that such spending would, at best, temporarily reduce the unemployment ranks, but could not be considered as a possible solution.

In April of 1940, Representative Faddis of Pennsylvania, bluntly told his colleagues in the House that it was time to completely rethink the approach to unemployment relief. He exclaimed before the House that, "All the money that has been spent has left nothing permanent behind . . . we have not devised any system whatsoever to make those who are unemployed, or on WPA, any more able to care for themselves than they were before this money was spent." Faddis added that, "We must solve the problem in a manner that does not fasten unemployment on the public payroll for their existence" (Congressional Record, April 1, 1940, 3794).

Across the country, Mr. Faddis was not the only one rethinking the situation. Various individuals were



attempting to pinpoint the underlying cause of this persistent problem. John Younger, a professor of engineering at Ohio State University, claimed the major factor in the unemployment problem of the last ten years was population gains and immigration. His assertion was based on the fact that the number of persons employed in 1937 was equal to the number employed in 1929. He believed that taxation and restrictions placed on businesses by federal legislation were keeping employment down ("Lays Rise in Jobless to Population Gains," 20).

Even President Roosevelt was searching for an attributable cause, hoping then to develop an adequate solution. In his January address to Congress, Roosevelt set forth the task facing the nation was to, "find jobs faster than invention takes them away" (Appendix to Congressional Record, January 18, 1940). The President stated that we had not yet found a way to employ the surplus labor which the efficiency and technology of industry had created.

Representative Robinson of Kentucky recommended we begin at square one, with a comprehensive study to determine the facts with regard to the causes of the

high unemployment, its extent and its cure (Congressional Record, April 4, 1940, 4036). He condemned the spending of billions of dollars for the relief of those who were unemployed, when steps to reduce and end unemployment had been neglected.

Another Congressman, Mr. Cannon of Missouri, believed the European conflict was preventing unemployment rates from dropping (Congressional Record, May 15, 1940, 4035-4036). Instead of accelerating employment, as many foresaw, the war depressed employment further according to Cannon. Every important market in Eastern Europe was closed to American commerce or was curtailed severely. Cannon saw no need to increase WPA spending, but only to maintain its current level, preventing any further layoffs.

In the early part of 1940, many suggestions were offered regarding changes that were needed in relief programs, nevertheless, proposals for the 1941 program closely followed those of previous years. The legislature appropriated \$975 million for the WPA. It was estimated that this amount would support only 1,350,000 workers in FY 1941 (Congressional Record,

March 18, 1940, 3002). In other words, 500,000 WPA workers would be released between July 1, 1940 and November 1, 1940. Private employment had not increased enough to absorb these people, so Congress allowed the appropriation to be spent in the first eight months of FY 1941, with the understanding that total relief funds would not exceed \$1.3 billion.

On March 11, 1941, President Roosevelt signed into law HR 1776, popularly known as the Lend-Lease Act. The bill, which made it possible for the U.S. to provide Great Britain with war materials, caused many people to re-evaluate the role of the federal works program. This ingenious bill allowed the U.S. to avoid directly funding Britain's war effort, as this was prohibited due to the fact Great Britain had defaulted on loans from World War I. Roosevelt also sensed an opportunity to set up production in U.S. factories, thereby reducing unemployment (Martel, 2). Passage of the Lend-Lease Act eliminated all hopes of remaining neutral in the European conflict and the unemployment rate fell steadily from that point on.

## CONCLUSIONS

The 1937-41 period presents unique questions. Why, after almost a decade of effort, did the number of unemployed remain in the nine to ten million range? Did the actions of the Roosevelt Administration coincide with the goal of reducing unemployment? And, how successful were the programs used during this time? The research suggests three conclusions regarding the public policies undertaken.

The first, a criticism of the public policy, involves the emphasis on relief rather than reduction of unemployment. Billions of dollars were spent between 1937 and 1941 on relief programs that failed to substantially combat unemployment in the five prior years. Portions of this money could have been spent to assist businesses in raising production and consequently, employment levels. Relief programs provided an artificial support that, no matter how generous and beneficial, would collapse if funds were cut. Business assistance, on the other hand, would have stimulated genuine economic recovery by increasing purchasing power. The fact that no direct correlation can be identified between WPA budget appropriations and

WPA employment levels supports the conclusion of overspending and inefficiency in the work program. I contend, therefore, that at least a portion of this money could have been put to a more productive use in the form of loans and grants to businesses, which would have directly reduced unemployment.

Second, despite some successes and some failures, the various measures comprising the New Deal during the years of experimentation did not bring economic prosperity or full employment. At best, Roosevelt sustained the hopes of millions of Americans who sympathized with the efforts to pull the nation out of the Depression--even when they failed. Without a doubt, the New Deal's economic and social programs during these years cushioned the suffering inflicted by unemployment.

The final conclusion addresses a vestige of the New Deal policies. Certain mindsets developed during the years of rampant unemployment that remain a part of public policies today. Since WW II, employment has been a priority for the United States government. This attitude has resulted in a relative tolerance of inflation. An interesting contrast can be made with

Germany. The Germans will tolerate almost any level of unemployment in order to avoid inflation, which devastated their economy following WW I.

After considering the host of variables in the unemployment situation, one can more clearly understand why Roosevelt failed to reduce unemployment to an acceptable level before WW II. In the early years of the Depression, policymakers attempted no comprehensive attack on unemployment. As the situation grew more desperate, it became more difficult to solve. Roosevelt's policies continually faced opposition from conservative isolationists and those calling for a balanced budget. The focus was, therefore, on relief for the unemployed, rather than job creation. Although the United States benefitted from many of the New Deal programs, the experiments in employment policy failed to meet the goals Roosevelt had set forth early in his Presidency, especially after 1937.

**APPENDIX**

TABLE 1

TOTAL UNEMPLOYED WORKERS (AFL Estimates)

<u>YEAR</u>	<u>MONTH</u>	<u>THOUSANDS</u>	<u>YEAR</u>	<u>MONTH</u>	<u>THOUSANDS</u>
1937	JANUARY	9,241	1940	JANUARY	10,380
	FEBRUARY	8,960		FEBRUARY	10,318
	MARCH	8,604		MARCH	10,027
	APRIL	8,313		APRIL	9,953
	MAY	7,909		MAY	9,712
	JUNE	7,824		JUNE	9,273
	JULY	7,782		JULY	9,266
	AUGUST	7,746		AUGUST	8,909
	SEPTEMBER	7,513		SEPTEMBER	8,172
	OCTOBER	7,706		OCTOBER	7,845
	NOVEMBER	8,479		NOVEMBER	7,790
	DECEMBER	9,307		DECEMBER	7,603
1938	JANUARY	10,926	1941	JANUARY	8,659
	FEBRUARY	11,123		FEBRUARY	8,084
	MARCH	11,226		MARCH	7,540
	APRIL	11,065		APRIL	6,838
	MAY	11,404		MAY	6,059
	JUNE	11,400		JUNE	5,333
	JULY	11,274			
	AUGUST	11,087			
	SEPTEMBER	10,465			
	OCTOBER	10,371			
	NOVEMBER	10,515			
	DECEMBER	10,335			
1939	JANUARY	11,192			
	FEBRUARY	10,992			
	MARCH	10,691			
	APRIL	10,637			
	MAY	10,390			
	JUNE	9,909			
	JULY	10,024			
	AUGUST	9,832			
	SEPTEMBER	9,169			
	OCTOBER	8,895			
	NOVEMBER	9,063			
	DECEMBER	8,961			



TABLE 2

WORKERS EMPLOYED ON WPA: 1937-1941

<u>YEAR</u>	<u>MONTH</u>	<u>THOUSANDS</u>	<u>YEAR</u>	<u>MONTH</u>	<u>THOUSANDS</u>
1937	JANUARY	2,127	1940	JANUARY	2,136
	FEBRUARY	2,145		FEBRUARY	2,243
	MARCH	2,125		MARCH	2,204
	APRIL	2,075		APRIL	2,002
	MAY	2,018		MAY	1,889
	JUNE	1,874		JUNE	1,658
	JULY	1,628		JULY	1,598
	AUGUST	1,509		AUGUST	1,635
	SEPTEMBER	1,454		SEPTEMBER	1,622
	OCTOBER	1,460		OCTOBER	1,694
	NOVEMBER	1,501		NOVEMBER	1,723
	DECEMBER	1,594		DECEMBER	1,781
1938	JANUARY	1,801	1941	JANUARY	1,815
	FEBRUARY	2,001		FEBRUARY	1,810
	MARCH	2,319		MARCH	1,679
	APRIL	2,538		APRIL	1,537
	MAY	2,638		MAY	1,417
	JUNE	2,741		JUNE	1,340
	JULY	2,912			
	AUGUST	3,037			
	SEPTEMBER	3,120			
	OCTOBER	3,192			
	NOVEMBER	3,238			
	DECEMBER	3,066			
1939	JANUARY	2,928			
	FEBRUARY	2,905			
	MARCH	2,917			
	APRIL	2,676			
	MAY	2,507			
	JUNE	2,436			
	JULY	2,235			
	AUGUST	1,908			
	SEPTEMBER	1,654			
	OCTOBER	1,802			
	NOVEMBER	1,877			
	DECEMBER	2,040			

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