Dissertation Abstract

In response to the worst ever economic crisis in the U.S., the New Deal was created by the President Franklin Roosevelt. It was not just an expansion of the existing programs but a qualitatively different way to distribute federal funds to people in need. To see how the New Deal was different from the previous programs and to analyze its effect on the economy, I studied the statues governing the money distribution process, collected new government spending data, analyzed the distribution patterns and calculated fiscal policy multipliers.

In the first chapter of my dissertation I analyze the appropriation acts for the major federal spending programs. This is the first detailed study of such nature. The first veterans’ aid federal programs were started before the Civil War and were specific in how federal funds could be allocated. The Bureau of Reclamation, highways, and rivers and harbors improvements programs that followed were equally tightly regulated by the Congress, with the congressional oversight written into the law. The change in the appropriations acts did not come until 1933 when the newly inaugurated President Franklin D. Roosevelt introduced his New Deal legislature. The new federal spending programs were aimed at alleviating unemployment and providing relief during the Great Depression. Due to the economic emergency and the need for swift relief measures, the New Deal acts gave wide powers to distribute federal funds to the President and the agencies he would create. There was no Congressional oversight, no project approval process. The Congress appropriated money to general relief programs (agriculture, conservation, national industrial recovery, etc.) to use “at President’s discretion.” Lack of tight regulations made it possible to direct the money where it was most needed in a timely fashion. At the same time, as I show in Chapter 2, it enabled the President to allocate more funds to the swing voting states and gather political capital for the reelection. Most of the New Deal acts were labeled as emergency and had a termination date. Even though the termination date was sometimes extended, the laws were later changed making the Executive branch directed distribution of federal funds a New Deal phenomena.

The New Deal funds were not evenly distributed among the states. Neither were they proportional to the population. In chapter two I analyze the sources of the variation in the amount of per capita federal spending the states received through the New Deal. Previous studies suggest that both economic and political characteristics of a state led to it receiving more New Deal money. To see if it was a new pattern or a continuation of the old approach, I look at the distribution of federal funds in the 1920s as well. I use the new detailed program-by-program annual data on federal spending that I collected over the years with Price Fishback. Using an instrumental variables approach, I find that federal funds were distributed differently in the 1920s and 1930s. Before the New Deal started in 1933, the political characteristics of the state (swing voting and faithfulness to one party — or how far to one side it is, and how far does it swing) had no effect on the distribution process. The amounts were determined by geographical features of the state; western arid states received more money for the irrigation projects, while eastern states obtained more funds for improving the harbors. Starting with the President Roosevelt and his New Deal, the swing voting states started receiving more federal funds in almost all categories, everything else held equal. The legislative freedom in the New Deal legislature that I discovered in Chapter 1 made it possible for Roosevelt to gather political capital in the swing voting states. This is the first study that determines the onset of the swing-voting heavy patterns for distribution of the federal funds.
The emergency relief and recovery spending of the New Deal had to have an economic effect on the wellbeing of the states. In chapter 3 I analyze how large that effect was. To be consistent with the previous studies, I estimate state level government spending income multipliers for different types of New Deal spending. I use the unique dataset that Price Fishback and I collected from direct archival sources and an instrumental variable approach to counteract the endogeneity of state personal income and federal funding a state received. I find that one additional dollar of per capita New Deal spending increase personal per capita state income by 40 to 96 cents depending on the type of spending. New Deal programs varied greatly in their design and method of operation, so it is no surprise that the economic response to those programs was different as well. I roughly divide the programs into grants and loans, keeping in mind that many loan programs turned into grants over time when the repayment was forgiven. A dollar of per capita New Deal grants increased per capita income in states by 86 cents. Once I added loans to the grants the personal income multiplier went down, as one would expect, since loans by their nature are supposed to be repaid. Agricultural Adjustment Administration spending stand out from the rest of the government spending. That program was developed to improve farmers’ wellbeing by increasing the agricultural commodity prices. In order to do so, the farmers were paid to take land out of production to decrease supply and drive prices up. AAA spending had an expectedly different effect on the states’ incomes. The estimated government spending income multiplier is very small unlike the rest of my estimates. I also find that the New Deal spending had a positive effect on the consumption of durable goods, specifically automobiles, and a negligible and sometimes negative effect on employment.