THE GREAT ~~DEPRESSION~~ Recession

As bad as the economy is, it's not the 1930s. That era brought hard times and changed the role of government in American life.

BY RON SNELL

Comparisons of the current painful recession to the Great Depression of the 1930s come easily, but they don't hold up. The Depression of the 1930s was its own beast. This recession is unlikely to bring the major changes to American life that the 1930s did, any more than it is likely to produce the depths of despair of the '30s. One effect that cannot be duplicated was the way the Great Depression led to a restructuring of state government throughout the United States.

The Depression 80 years ago fundamentally changed the relationship among federal, state and local governments. It also shifted the way public money is raised and spent to the point that the United States in 2009 is hardly recognizable as the same nation as before the Depression.

After a period of unprecedented prosperity in the late 1920s, the stock market crash of 1929-1930 signaled the beginning of an economic freefall. U.S. gross domestic product fell by 46 percent from 1929 to its low point in 1933. Prices fell sharply to about 72 percent of their 1929 level. Unemployment soared from less than 4 percent in 1929 to 25 percent in 1933 and remained in double-digits until 1941, when defense spending began absorbing the unemployed.

For the first time in American history, the federal government exerted itself to stimulate the economy, beginning in Herbert Hoover's administration and continuing with Franklin D. Roosevelt, who took office in 1933. Roosevelt's sometimes disjointed efforts to address the national agricultural crisis, stimulate economic growth, and relieve the miseries of the destitute are well-known for changing the social and economic landscape of the United States.

What is less well-known is the effect Hoover's and Roosevelt's policies had on how state governments operate and the relationship between states and the federal government. For the first time, substantial federal grants came to the states. The grants stimulated structural changes in state governments and the relationships between state and local governments. The 1930s saw state governments broaden their responsibilities from highway administration and passive government administration to areas of domestic policy that previously had been the realm of the private sector.

Measured by economic activity, the federal government and the state governments were almost unimaginably small before the Great Depression. Federal spending was only 1.6 percent of gross domestic product in 1929, as compared to more than 20 percent in 2006. State and local government spending was much larger than federal spending before the Depression. In 1927, local governments spent about $6.4 billion; states spent $2 billion, and the federal government spent $2.8 billion.

It's difficult to make clear comparisons between pre-Depression and modern government finance because today's numbers are astronomical, and federal taxes fund so much of state and local spending. In this decade, state and local revenues combined are about half what the federal government spends, as opposed to state-local amounts four times as large as federal revenues before the Depression.

DEPRESSION FINANCE

State and local revenues had a highly vulnerable tax base before the Great Depression. In 1927, two-thirds of all state and local revenue came from property taxes. For states, the only comparable revenue source was the motor fuel tax. Local governments had no other significant source. The property tax had been a fertile source of revenue growth in the mid- and late 1920s, averaging close to 9 percent per year growth from 1922 to 1927. Depression economics reversed that growth. Nationally, property tax assessments fell almost 20 percent from 1929 to 1936 before leveling off.

Initially, the state and local government response to the Depression was to continue spending at approximately the level of previous years, with shortfalls financed by a small increase in federal aid to the states, continued growth in motor fuel and vehicle taxes, and borrowing.

Unprecedented unemployment and the length of time people remained out of work, however, posed demands for public assistance that state and local governments could not meet. In 1927, the states' direct spending on public welfare—then referred to as relief—was about 3 percent of their general spending, and local governments spent less than 2 percent. These figures reflect the era.

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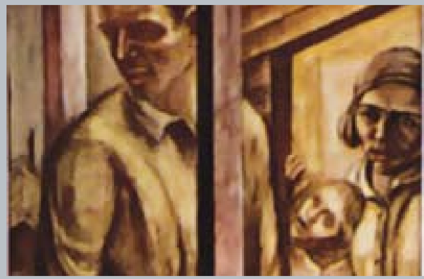
STATE RESISTANCE



The Great Depression differs from our current economic woes in many respects, but there are a few common traits. One is that federal and state officials do not always see eye-to-eye about the best way to fix the economy.

Today, governors in Alaska, Louisiana, South Carolina and Texas have voiced objections to aspects of the economic stimulus plan. But it's nothing like what happened in Colorado more than 60 years ago.

The 1933 economic recovery plan allowed federal administrators to take over unemployment relief in any state that failed to comply with the act. The Colorado General Assembly refused to appropriate matching funds in 1933, so administrator Harry Hopkins took control of the state's unemployment program. When lawmakers again failed to comply during a special session, Hopkins cut off funds for Colorado. Riots broke out in Denver, and an alleged Communist invasion of the state Senate chamber convinced legislators to approve tax increases in January 1934. On the day the bill went into effect, Hopkins sent money for the unemployment fund.

Massachusetts Governor Joseph Ely turned down federal aid, believing that helping the poor was a matter best left to private charity. As a result, the Boston Civic Symphony gave concerts to help the jobless, Boston College and Holy Cross played a football game for charity, and even the city's teachers donated a portion of their salaries to the poor. The voters traded in Ely for James Curley, however, electing him governor in 1934.

Resisting the idea of heavy federal taxation, Virginia refused to provide matching funds for federal grants and only reluctantly created unemployment compensation and an elderly-assistance program. By 1939, nine states had not accepted the program of aid for dependent children.

A BONANZA OF BENEFITS

The Great Depression brought plenty of misery, but it also brought a wealth of public buildings, parks, roads and other projects, including in the arts. These came mostly from the Works Progress Administration (renamed the Works Projects Administration in 1939) from 1935 until 1943. The WPA provided almost 8 million jobs and spent more than $11 billion, providing the 1930s version of a stimulus. The Public Works Administration and the Civilian Conservation Corps also left a solid record in brick, stone and landscaping. Here are some notable monuments to the federal recovery effort of 70 years ago.

◆ **State capital cities**: WPA-funded public buildings adorn almost every state capital in the nation, and their distinctive limestone, art deco style has kept them highly visible. Nashville, for example, won a state office building, a post office, a county courthouse and a Supreme Court building, all very much in use today.

◆ **Doubleday Field in Cooperstown, N.Y.**: This minor league stadium, which hosts the Hall of Fame game every year, sits on the lot where Abner Doubleday is said to have invented baseball. WPA workers added seating and fencing.

◆ **Camp David, Md.**: The well-known presidential retreat in Maryland was built by the WPA as a recreation area before President Franklin D. Roosevelt decided to use it as a vacation spot. President Dwight D. Eisenhower later named it for his grandson.

◆ **Dealey Plaza, Dallas, Texas**: This park in the heart of Dallas was completed by WPA workers in 1940 and named for a publisher of the *Dallas Morning News*. It achieved infamy in 1963 when President John F. Kennedy was assassinated there.

◆ **LaGuardia Airport, N.Y.**: The Big Apple got a city airport when the WPA joined with New York to build it, finishing in 1939. It was named for Mayor Fiorello LaGuardia.

◆ **George Stanley's Muse Statues, Los Angeles, Calif.**: The entrance to the Hollywood Bowl features a massive fountain designed by sculptor George Stanley and contains three granite art deco statues representing music, dance and drama, all part of a WPA arts project. Stanley also is known

for designing the Oscar statuette that goes to Academy Award winners.

◆ **Red Rocks Amphitheatre, Morrison, Colo.**: Located close to Denver, this site is regarded as one of the world's pre-eminent outdoor venues. Finished in 1941 by Civilian Conservation Corps workers, it's been the scene of countless concerts and other events, including U2's *Under a Blood Red Sky* concert that later became a film. The camp where the CCC workers lived is now the headquarters for the Denver Mountain Parks District.

Sources: howstuffworks.com, wikipedia.org, www.centerwest.org.

CHECK OUT photos of Nashville's Great Depression-era buildings at www.ncsl.org/magazine.

Assistance to the poor was not a governmental priority but, rather, a matter of private charity. That meant benefits available to the unemployed or poor varied greatly within states as well as among states.

FEDERAL RELIEF

By 1932, the huge numbers of unemployed workers overwhelmed private and public sources of public assistance. State spending on relief grew from about $40 million in 1927 to $74 million in 1932, and local spending more than tripled, rising to nearly 6 percent of general spending. Demands for action from the Hoover administration led Congress to pass legislation in 1932 offering $300 million in loans through the Reconstruction Finance Corporation to state and local governments. Hoover, however, was uncertain it was needed.

"First, through provision of $300 million of temporary loans by the Reconstruction Corporation to such states as are absolutely unable to finance the relief of distress, we have a solid backlog of assurance that there need be no hunger and cold in the United States," Hoover said in his signing statement. "These loans are to be based upon absolute need and evidence of financial exhaustion. I do not expect any state to resort to it except as a last extremity."

The "absolute need" condition made it difficult for state and local governments to borrow from the federal government, since administrators demanded hard evidence that states and cities had completely exhausted their resources.

The inadequacy of the Hoover administration's efforts led to enactment of the Federal Emergency Relief Act (FERA) early in the Roosevelt administration. In May 1933, the new act provided $500 million in grants to state governments to help with relief.

Half the funding required states to match the money. The other half was available to states as competitive grants after governors certified that state and local money provided by their own efforts and the federal matching grants were inadequate. Through the end of 1934, the act provided $3.1 billion (about $50 billion in 2009 dollars) in direct aid to state governments. In rough comparison, the economic recovery act signed by the president in February 2009 provided $787 billion to help those in need and to stimulate the economy.

FIRST MATCHING GRANTS

This legislation, creating the first state matching grants for any purpose other than highway construction, dramatized the weaknesses in state revenues and state administration. The Hoover administration's loan program had brought pressure for administrative and fiscal changes in states that sought loans. Roosevelt's matching grants produced additional incentives for states to find funds to obtain the federal money. More than fiscal strings were attached, however. The Roosevelt administration favored centralized, streamlined, businesslike administration of government programs. The conditions attached to the act's discretionary grants and the Social Security Act of 1935 helped bring that approach to state government.

The Social Security Act packed creation of a national retirement benefits program and five new state-federal programs into its 32 pages, a miracle of legislative brevity. It created the unemployment compensation program we know today and provided grants to states for their existing old-age assistance programs, aid to dependent children, maternal and child welfare, and public health. Most of these programs were new to a lot of states. Where health, welfare and public health programs existed, they were sponsored and funded by local government and charitable organizations. No statewide public income-assistance program existed in any state before 1930, when one was created in New York under then-Governor Roosevelt.

The relief act and Social Security attempted to address several issues at once: To provide federal assistance to state governments; to encourage more state spending through matching grant requirements; to make programs uniform and available to all eligible recipients statewide; and to require state governments to plan and administer health, welfare and income assistance programs.

States had to create appropriate programs to obtain federal money. In Pennsylvania, for example, a classic New Deal coalition of labor unions, liberals and African-American voters easily passed complying legislation, including creation of a state Department of Public Assistance and several pro-labor bills in 1937. Other states opposed such changes on the grounds of the economy, constitutional questions, disapproval of big government, or inability to raise matching funds.

By the end of the 1930s, however, the personal popularity of the president, the lure of federal dollars, and the pressures of addressing unemployment and poverty had induced all states to adopt unemployment compensation and old age assistance, and most of them to adopt the rest of the state-aid programs in the Social Security Act. Doing so required creation of state bureaucracies that had not existed a decade earlier.

Spending, of course, also grew, financed mostly by states' adoption of new sources of revenue. The widespread adoption of taxes, which had been insignificant or nonexistent before 1930, increased state revenues 250 percent from 1927 to 1940. Mississippi invented the modern sales tax in 1930, and 21 more states and the Territory of Hawaii adopted it by 1940. Personal income taxes existed as only a minor source of revenue in 14 states in 1930; 16 more states adopted them in the 1930s. All states created either liquor taxes or systems of state-owned liquor stores after Prohibition was repealed in 1933, and 20 states adopted cigarette taxes. All states had motor fuel taxes by 1930, and many enacted rate increases in the following 10 years.

As a group, states revolutionized their tax systems in the 1930s, laying the foundation of the system of state and local government finance that exists today.

THE END OF THE DEPRESSION

The 1930s changed the role of the federal government in American life. Before 1933, it played almost no role in trying to stabilize the national economy, provide support to poor and elderly people, support agriculture or affect the policies of state and local governments. The Reconstruction Finance Authority, FERA, creation of the Social Security Administration and direct financial assistance to state governments changed American life permanently, even though the size of the federal government in relation to the national economy did not radically change until national defense spending exploded in 1941.

Although by current standards the expansion brought only moderate growth in the role of government, it laid the foundations of modern federalism and the domestic role of state and local governments.

CHECK OUT Ron Snell's full report on the states and the Great Depression, including additional tables and other material, at www.ncsl.org/magazine.