STUDY GUIDE

DID FDR END THE GREAT DEPRESSION?

KEY TERMS: New Deal, Great Depression, NIRA, monopolies, collective bargaining

NOTE-TAKING COLUMN: *Complete this section during the video. Include definitions and key terms.*	**CUE COLUMN:** *Complete this section after the video.*
What was the Roosevelt administration's reasoning behind NIRA?	How did President Roosevelt's New Deal policies affect the economy?
How did the Roosevelt administration react to the Supreme Court's decision regarding the constitutionality of NIRA?	Why didn't President Roosevelt's New Deal policies work?
After years of slow recovery, what did President Roosevelt finally acknowledge in terms of his policies?	

DISCUSSION & REVIEW QUESTIONS:

- Professor Ohanian begins the video by asking, "Did President Franklin Roosevelt's New Deal economic policies pull the country out of the Great Depression?" then states, "...the answer, contrary to popular belief, is no. In fact, the New Deal made matters worse." Why and how do you think that the New Deal policies bringing the country out of the depression became 'popular belief?' Why do you think that history, even relatively recent history, is often remembered incorrectly?

- After explaining that part of why the New Deal didn't work as intended is because artificially raising wages raises labor costs, Professor Ohanian points out the simple truth that, "When labor costs go up, business hires fewer workers or no workers at all, especially in a difficult economic environment." Why do you think that businesses would hire fewer workers if workers became more expensive? How do you think that this simple truth relates to the current trend of rising minimum wages across the U.S.?

- Professor Ohanian also spells out another basic economic reality that, "...artificially raising prices reduces demand for the obvious reason that people buy less of something when its price goes higher." How do you think that prices could be artificially raised? What do you think is the relationship between a company having to pay more for workers and the prices that they set for their goods and services?

- We learn later in the video that, "The government, Roosevelt concluded, could much better manage the economy during a time of crisis, than private enterprise, which, in his worldview, only considered its own selfish interests." Why do you think that President Roosevelt was confident enough in his unproven conclusions regarding the economy to risk implementing policy based on them? Do you think that President Roosevelt took too narrow a view on economic policy because of his personal animosity towards private enterprise? Why or why not?

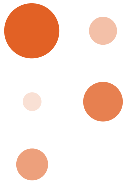
- Towards the end of the video, Professor Ohanian concludes that, "If these policies had not been adopted, my research, as well as research by other economists, indicates the economy would have returned to its normal level of employment and output by 1936. In other words, the policies that were supposed to restore prosperity actually prolonged the Depression. After several years of slow recovery, even FDR acknowledged that his policies had failed." Considering that the progressive policies of the Roosevelt administration failed, proving that President Roosevelt's economic theories were wrong, why do you think that so many progressives today still wish to implement policy based on the same flawed reasoning?

EXTEND THE LEARNING:

CASE STUDY: Collective Bargaining

INSTRUCTIONS: Read the article “The Unintended Consequences of Collective Bargaining,” then answer the questions that follow.

- What effect does unionization have on the cost of labor? What is ‘deadweight loss?’ What effects does ‘deadweight loss’ produce, especially in relation to GDP?
- What two major conclusions are drawn by the author of the article? Do you agree with those conclusions? Why or why not?
- Does the information in this article support the conclusions of Professor Ohanian regarding the effects of President Roosevelt’s New Deal policies? If no, why not? If yes, in what ways?



QUIZ

DID FDR END THE GREAT DEPRESSION?

1. President Franklin Roosevelt's New Deal economic policies pulled the country out of the Great Depression.

a. True
b. False

2. Artificially raising wages _______________.

a. is a proven way to turn around an economy
b. is what made the Great Depression so short
c. also raises labor costs
d. has no lasting effects on an economy

3. FDR based his New Deal policy largely on what happened during what war?

a. French Revolution
b. World War I
c. World War II
d. Mexican-American War

4. The Wagner Act of 1935 provided unions with _____________________.

a. new collective bargaining rights
b. greater control in determining wages
c. a team of lawyers to aid in suing their members
d. a simpler way to calculate the cost of health insurance

5. Why did the Supreme Court declare the NIRA unconstitutional?

a. FDR violated the Second Amendment
b. FDR violated the Patriot Act
c. FDR violated free speech rights
d. FDR violated constitutional separation of powers

QUIZ - ANSWER KEY

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https://cei.org/content/unintended-consequences-collective-bargaining

The Unintended Consequences of Collective Bargaining

Lowell Gallaway, Jonathan Robe • July 29, 2014

This study analyzes the effect of unionization on economic growth on a state-by-state basis, and calculates the "deadweight loss" resulting from unionization. By raising the cost of labor, unions decrease the number of job opportunities in unionized industries. That, in turn, increases the supply of labor in the nonunion sector, thereby driving down wages in those industries. The effect of this situation is to increase the natural rate of unemployment, thus imposing a deadweight loss of economic output on the economy.

Deadweight loss in this context means that unionization, by artificially increasing the price of a factor of production—labor—above the price that would be established in a free and competitive marketplace, comes at the cost of retarding economic output that would occur absent that artificial constraint on a free labor market.

This assessment does not suggest that, in an ideal world, workers should be paid increasingly less to ensure further economic growth. Rather, increases in productivity—not artificial increases in labor prices—are the key to economic growth.

The presence of deadweight losses arising from labor union activity can be shown in a formulation devised by labor economist Albert Rees (1953, 1963). Rees demonstrated the consequences of union wage-raising initiatives on levels of employment in both the union and nonunion sectors of the labor force.

The Rees formulation can be used to calculate the numerical value of deadweight losses from unionization if union density (the percentage of employees who are unionized), wage premiums associated with the presence of unions, and general elasticity of demand for labor are known. The elasticity of demand for labor measures how much the quantity of labor demanded by employers changes, given a change in the price of labor. Work done by Richard Vedder and Lowell Gallaway (1997) provides us the latest, best assessment of the elasticity of demand for labor.

Using this and other estimates, this study calculates the deadweight losses described by Rees as being associated with the presence of labor unions for six different and select years during the period 1967 through 2000. On average, the results show a deadweight loss in workers' wages of slightly less than a third of a percentage point.

Over a period of 50 years, the cumulative reduction in worker wages would be about 15 percent. Because wage payments are only a fraction, albeit a large one, of gross domestic product (GDP), the deadweight losses from unionization are a smaller fraction of that magnitude. However, over a long period, those small annual effects produce a substantial cumulative loss of GDP—as much as a 10 to 12 percentage point loss over a half century.

It is worth noting that these figures are minimal estimates of the deadweight losses produced by labor unions. Rees's analysis assumes a perfectly inelastic supply curve for labor, and elasticity could easily double the deadweight losses produced by unionization in America.

Deadweight loss contributes to interstate income differentials. To explore the extent of this phenomenon, the analysis defines a statistical model to explain the growth in real per capita income (RPCI) in states. The unionization rates and an additional five independent variables—manufacturing, income tax rates, RPCI in 1964, politics, and college education equivalency—are included in the model to account for additional factors that are likely to affect the growth in income.

Most important for purposes of this report is the statistical significance (at the 5 percent level) of the regression coefficient for the average percent unionization variable. This measure indicates that every additional percentage point of average unionization in this time period reduced
the growth in RPCI by 1.73 percentage points.

Knowing this relationship permits the calculation of the estimated effect of union-related deadweight losses on the growth in RPCI in each of the several states.

Two broad conclusions emerge from this document. First, the presence of labor unions that operate as bargaining agents in the process of collective bargaining has the potential to seriously inhibit economic growth in the several states and the District of Columbia. This conclusion suggests that the decision to officially encourage collective bargaining through public policy, which was the primary thrust of the National Labor Relations Act of 1935 (the Wagner Act), was rife with unintended negative consequences.

The disparity in the relative incidence of unionization of the workforce in the United States leads to our second broad conclusion—that certain states, such as Michigan (which enacted a right to work law only in 2012), have suffered large amounts of foregone economic growth, while others, such as South Carolina (which has had a right to work law for a long time), have been affected to a far lesser degree.

Those conclusions provide a strong case for viewing the passage of the Wagner Act in 1935 as a case of causing long-term economic trauma. However, state policy makers can mitigate some of the most damaging aspects of the Wagner Act by passing right to work laws.

Note: *The study analyzes 1964-2011. Idaho, Oklahoma, Michigan and Indiana enacted right-to-work laws in 1986, 2001, 2012 and 2012, respectively.*