Great Once More: 
Recovery and Reform from the Great Depression
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Recovering from the Great Depression was a long and arduous process. However, through a combination of the resolve of the American public, New Deal Programs, and the Second World War, the United States was able to pull through its darkest economic downturn. Soon, the United States found itself once again hitting its economic stride in a world that had been radically reshaped by war. Though the express purpose of many economic reforms in the late 1930s and 40s was to address the Great Depression, these reforms directly shaped the future of the U.S. economy. Not only did they serve as safeguards to prevent a similar economic collapse but they altered how the country generated wealth at its core.

This paper seeks to explore how the United States pulled itself out of the Great Depression and how those steps have shaped the economy for decades to come. First, twin means of U.S. economic recovery from the Great Depression will be discussed: The New Deal and World War II. Next, some of the lasting domestic economic reforms from the time, namely the Employment Act of 1946 and the Glass-Steagall Act, will be outlined. Finally, the creation of the world’s international monetary system will be explained.

Building Roads and Rifles: Escaping the Great Depression

No single program, law, or event pulled the United States out of the Great Depression. However, few factors were more impactful than the New Deal programs and the outbreak of the Second World War. The New Deal served as a testing ground for a variety of new programs and economic ideas. In turn, the Second World War gave the United States an opportunity to assert its vast production capability and put U.S. citizens back to work. Both are critical in understanding the reforms that came out of the Great Depression as they shaped the public and government consciousness of what the U.S. economy could be.

Digging our Way Out: The New Deal

The New Deal is a catch-all term for the massive amount of laws and programs passed during the 1930s and 40s. These programs touched every aspect of society and were an attempt to quickly generate jobs for as many people as possible. One of the most well-known parts of the New Deal were the public works programs. These employed thousands of workers in projects building infrastructure that would benefit the country at large.

One of the most significant public works programs was the Tennessee Valley Authority (TVA). The TVA was established to promote economic growth in impoverished areas,¹ around Tennessee and six

¹ Tennessee Valley Authority, The Living New Deal (2016)
surrounding states.\textsuperscript{2} Beyond providing assistance to workers, primarily agricultural workers, the TVA’s most significant contribution came in the form of dams.\textsuperscript{3} The dam projects in the area completely reshaped the region, providing abundant electricity where only a few years ago it would have been a luxury.\textsuperscript{4} Further, the new electricity made the area a key pillar of the war time economy, helping power the production of a variety of war time necessities.\textsuperscript{5} Additionally, the TVA is the only New Deal public works still in operation today.\textsuperscript{6} It now provides electricity to over 9 million people through dams, coal power plants, and nuclear reactors.\textsuperscript{7} The Tennessee Valley Authority was a uniquely regional public works program but other programs had more far-reaching impact.

The Public Works Administration (PWA) was established as part of the National Industrial Recovery Act of 1933.\textsuperscript{8} As indicated in the name, this administration served the same public works goal as the Tennessee Valley Authority. However, unlike the Tennessee Valley Authority, this administration provided money to states to pay private contractors to construct public works.\textsuperscript{9} The PWA hoped not only to construct beneficial infrastructure, but also to kick off further private spending on construction.\textsuperscript{10} By 1939, this administration had contributed around $3.8 billion to over 34,000 projects throughout the country. These projects included several prominent structures that still exist and contribute to the U.S. economy today. Notably, the triborough (Robert F. Kennedy) bridge in New York, the San Francisco Mint, and D.C.’s Reagan National Airport were all constructed with the help of funds from the Public Works Administration.\textsuperscript{11} The administration also funded the creation of several aircraft carriers, cruisers, and other naval vessels during World War II.\textsuperscript{12}

\textit{Stocking the Arsenal of Democracy: World War II Industrialization}

Though the New Deal would do a great deal to lift the U.S. out of the Great Depression, the Second World War put the U.S. on track to become an economic juggernaut. The U.S. had begun manufacturing weapons and supplies for the allied powers prior to joining World War II officially. However, it was the bombing of Pearl Harbor and subsequent declarations of war in 1941 that truly mobilized the U.S. economy. By 1942, U.S. unemployment was essentially non-existent.\textsuperscript{13}

In the latter half of 1940, the federal government invested $1.4 billion in new manufacturing for the war effort.\textsuperscript{14} However, rather than creating state operated manufacturing, these funds were used to pay

\textsuperscript{2} Id.  
\textsuperscript{3} Id.  
\textsuperscript{4} Id.  
\textsuperscript{5} Id.  
\textsuperscript{6} Id.  
\textsuperscript{7} Id.  
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\textsuperscript{9} Public Works Administration, The Living New Deal (2016)  
\textsuperscript{10} Id.  
\textsuperscript{11} Id.  
\textsuperscript{12} Id.  
\textsuperscript{13} Ages of American Capitalism, Jonathan Levy (2021).  
\textsuperscript{14} Id.
private contractors to form their own factories.\textsuperscript{15} This technique, “government-owned, contractor operated” or GOCO, encompassed the vast majority of military manufacturing in the United States.\textsuperscript{16} The U.S. Army used this method to invest in Chrysler’s Detroit Tank Arsenal,\textsuperscript{17} a sprawling 690,000 square foot factory that eventually built 20,000 tanks for the military.\textsuperscript{18} Another GOCO factory, the 3.5 million square foot Willow Run Facility,\textsuperscript{19} churned out the massive B-24 bombers used throughout the war.\textsuperscript{20}

Of course, new factories were not the exclusive means of production and existing factories quickly filled to capacity. To determine how much the U.S. could produce, the federal government (and in particular the commerce department) instituted a major economic measurement in the U.S. for the first time. In 1942, the commerce department assessed the value generated by America’s total outputs or “Gross National Product” for the first time.\textsuperscript{21} This wartime application has become a mainstay of assessing U.S. economic growth and health.

\textbf{Short Term Reactions, Long Term Implications: Economic Reforms from the Great Depression}

The New Deal and World War II served as effective but ultimately short-term economic changes. However, a litany of laws that were passed throughout the Great Depression recovery and during World War II still influence U.S. economic thinking and policy today. Thus, even if the Great Depression is well behind us, many of the lessons learned from it are still with us today.

\textit{Predicting Stability: Employment Act of 1946}

Following World War II and the harsh realities of the Great Depression, the U.S. was eager to insulate itself from future shocks to the economy. The Employment Act of 1946 was designed precisely to address these concerns. The primary component of the Act was a declaration of policy that stated it was the responsibility of the federal government to create conditions that would “promote maximum employment, production, and purchasing power.”\textsuperscript{22} To accomplish these ends, the Act created two new organizations. The first was the Council of Economic Advisers (CEA), which is composed of a three-member board that advises the president on economic policy.\textsuperscript{23}

The act also created the Joint Economic Committee, which consists of members of both political parties from the Senate and House of Representatives.\textsuperscript{24} This committee advises the House of Representatives and Senate on economic policy and reviews the President’s obligations under the Employment Act of

\textsuperscript{15} Id.
\textsuperscript{16} Id.
\textsuperscript{17} Id.
\textsuperscript{18} Id.
\textsuperscript{19} Id.
\textsuperscript{20} Id.
\textsuperscript{21} Id.
\textsuperscript{23} Id.
\textsuperscript{24} Id.
The President is required under the Act to submit a report to Congress within 10 days of submitting the federal budget that attempts to forecast the U.S. economy and highlights the President’s economic goals. This report is reviewed by the Joint Economic Committee and influenced by the CEA’s recommendations.

The Act is still active today and has guided U.S. economic policy since its inception. Though it does not have particularly hard enforcement mechanisms, scholars note that it has helped establish a government responsibility for the economy. Overtime, the law has been strengthened as demonstrated by reforms made by the Humphrey-Hawkins Act, which made goals for unemployment rates and inflation rates explicit (something that was originally avoided in the Employment Act of 1946). Thus, even if the power of this Act lacks a strong enforcement mechanism, it created the modern day U.S. approach to the government’s role in the economy.

The Fiscal Firewall: Glass-Steagall Banking Act

Signed into law on June 16, 1933, the Bank Act of 1933 (commonly known as the Glass-Steagall Act) attempted to bolster banks as well as the government’s ability to address banking failures. The bill instituted a number of sweeping changes to banking and government financial security. One was instituting stricter oversight of national banks by the Federal Reserve Bank. This addition clearly harkened back to the initial failures of the U.S. government to resolve the Great Depression. The Glass-Steagall Act also established the Federal Deposit Insurance Corporation (FDIC). This agency insures deposits of U.S. citizens and examines financial institutions for safety. Another contribution of Glass-Steagall was the prohibition placed on interest payments on checking accounts.

Despite the variety of safeguards introduced by Glass-Steagall, the separation of investment banking from commercial banking may be its most significant impact. This separation prohibited commercial banks that handled ordinary deposits from investing in stock markets. The hope was that this prohibition would reduce the risk of banks speculating on risky investments, which could lead to bank failures. During the Great Depression, around 10,000 banks failed, and even in the economic golden

25 Id.
26 Id.
27 Id.
28 Id.
29 Id.
30 Id.
32 Id.
33 Id.
34 About the FDIC, FDIC (2023).
36 Id.
37 Id.
era of the 1920s, hundreds of banks failed every year. After the institution of the Glass-Steagall Act, bank failures declined; by 1980 total failures remained below 600.

Despite its seemingly high degree of success in protecting against bank failure, Glass-Steagall and most of its provisions were repealed in 1999 after intense lobbying pressure. However, this repeal was debated intensely following the Great Recession. Several high profile supporters of the repeal have changed their stance following the disastrous Recession of the mid-2000s. Glass-Steagall (or an equivalent) have not been reenacted, but following several major bank failures, some claim that Glass-Steagall should return. In the wake of the failure of Silicon Valley Bank, the most recent proposal came in April 2023 from Representative Marcy Kaptur, who noted both the role a renewed Glass-Steagall could have played in minimizing the Great Recession and in preventing future crises.

**Preventing Ripples Around the World: Creating Modern International Banking**

It is important to remember that the Great Depression was an economic disaster that touched every part of the world. The realization of the global impact of a major financial shock coupled with a world crippled by war motivated many of the nations to consider an international banking system. These concerns were addressed at the Mount Washington Hotel in Bretton Woods, New Hampshire.

In July of 1944, delegates from 44 nations met to develop what has become the modern international financial system. They hoped to replace the last several decades of competition and restrictive trade with a stable and flexible international monetary system. Though every nation agreed on general principles, the details would be boiled down to two plans proposed by John Maynard Keynes and Harry Dexter White. Keynes’s proposal involved the creation of a unified international bank (called the Clearing Union) with its own currency (called “bancors”). Each nation would be able to borrow a limited amount from this bank but would also be encouraged to return excess bancors to the Clearing Union. White’s system, which was ultimately adopted with some Keynesian elements, had more limited powers and resources to avoid the United States dominating the international system.

The system envisioned a “stabilization fund,” with contributions of each national currency and millions of dollars’ worth of gold to place a limit on reserve credit. Ultimately, two organizations were formed

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38 Id.
39 Id.
40 Id.
41 Id.
42 Id.
45 Id.
46 Id.
47 Id.
48 Id.
49 Id.
50 Id.
to achieve these goals: the International Monetary Fund and the World Bank.\textsuperscript{51} The International Monetary Fund assists with balance-of-payment deficits and monitors exchange rates.\textsuperscript{52} The World Bank assisted with the world recovery following World War II as well as the economic development of less developed nations.\textsuperscript{53} These two institutions still serve as the primary international monetary organizations.

**Conclusion**

It is easy to view the Great Depression as an isolated event. However, the repercussions of this event are still seen today. The immediate reactions and economic recovery drastically changed the United States economic infrastructure and industrial capacity. The legal reforms made with the Great Depression in mind still shape the American approach to economic stability and remain touchstones for future reforms. Finally, the Depression and the post-WWII period led to the creation of the modern international monetary system that has not only played a significant role in America’s economy but continues to mold economies around the world.