

FRANKLIN ROOSEVELT, FEDERAL SPENDING, AND THE POSTWAR SOUTHERN ECONOMIC REBOUND

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ABSTRACT

Franklin Roosevelt publicly stated his devotion to the American South and pledged to help reform the region's laggard economy. However, Southern states received significantly fewer federal expenditures per capita, both during the New Deal of the 1930s and the military emergency of the 1940s. This article investigates economic, political, and strategic reasons for this result. Additionally, we apply a public goods perspective to New Deal and World War II spending and propose that lower levels of per capita spending in the South do not necessarily translate into a smaller impact of that spending.

Introduction

What the Civil War wrought did the Second World War end? After languishing in the devastated aftermath left by Southern defeat in the American Civil War, did the stimulation of a later war finally begin to restore the South's economic equality with the rest of the nation? Or was the stimulus begun even earlier, during the increased federal spending of the 1930s New Deal?

Federal policy initiatives during Franklin Roosevelt's administration are often credited with beginning the "reform" of the South—fundamentally altering its social, economic, and political institutions and integrating its economy more fully into the national one. Roosevelt, who spent considerable time in Warm Springs, Georgia, certainly encouraged this impression in speeches and policy statements. In July 1938, he wrote to the National Emergency Council:

No purpose is closer to my heart at the moment than... to obtain a statement—or perhaps I should say a restatement as of today—of the economic conditions of the South in relation to the rest of the country, in order that you may do something about it; in order that we may not only carry forward the work that has been begun toward the rehabilitation of the South but that the program of such work may be expanded (Carlton and Coclanis 1996, 42).

The result was a document entitled *Report on Economic Conditions of the South*, which provided short statements on fifteen topics, among them education, health, labor,

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housing, agriculture, credit, and income. This report, following in the wake of the Southern conservative reaction to such events as the attempted Supreme Court “packing,” was to provide a blueprint for using federal spending to reform the region’s laggard economy. Or, viewed less straightforwardly, it may have been an exercise to assuage Southern congressional members whose support was slipping away from Roosevelt. Despite his slight bow toward past Southern preferences, the overall tone of Roosevelt’s request suggests that little attention had been directed specifically toward this region’s problems earlier in the New Deal. Indeed, past studies on the New Deal political economy by Arrington (1969, 1970), Reading (1973), Wright (1974), Wallis (1984, 1987, 1998), and Fleck (1999) have demonstrated (directly or indirectly) that Southern states received fewer per capita dollars than other states between 1933 and 1939 and have focused heavily on political reasons for this result.

In this paper we examine federal expenditures between 1933 and 1945, with a primary focus on whether the Roosevelt Administration used World War II to follow through on its stated commitment to reform the South. The large increase in discretionary federal expenditures during the military emergency of the 1940s dwarfed those of the 1930s. These increases presented the Administration an opportunity to expand New Deal economic goals while simultaneously addressing military goals (indeed conventional wisdom holds that wartime federal spending ended the economic Depression of the 1930s). Like scholars examining New Deal expenditures, 1933-1939, we find that the South received disproportionately fewer federal funds than other regions during World War II and we explore possible reasons, economic and strategic, why a president apparently so committed to massive economic rehabilitation of the South seemingly failed to pursue that publicly stated objective. Further, we propose that analyses of the dollar amount of per capita spending may not be representative of the *impact* that spending had given that the nature of federal expenditures (public goods versus “make-work” projects) varied by region. Despite the *quantity* of funds received being lower in the South, the region could have benefited disproportionately if the *quality* of those funds—with respect to their overall impact—was higher.

A Brief Overview of Federal Spending and the South 1933 to 1945

Table 1 shows that throughout Roosevelt’s three-plus terms, Southern states received less federal money than their counterparts.¹ Between 1933 and 1939, Southern states received 38 percent less per capita New Deal spending than non-southern states. Between 1940 and 1945, the Federal Works Agency, which initially consisted of five of the major 1930s New Deal agencies, and later included some war-specific public works agencies, spent 15.6 percent less per capita in Southern states. Finally, in terms of federal military spending on war supply contracts and industrial facilities between 1940 and 1945, Southern states received 44.6 percent fewer federal dollars per capita than non-Southern states. The fact that the South received disproportionately less in each of these cases seems to fly in the face of Roosevelt’s stated commitment (and 1938 re-commit-

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ment) to “rehabilitating” the South. Before exploring potential reasons for this result, we give a brief reprise of the 1930s New Deal literature.

Table 1
Per Capita Federal Expenditures under Roosevelt, 1933-1945

	South	Non-South
New Deal, 1933-39	\$318.04	\$513.49
Federal Works Agency, 1940-45	\$68.33	\$80.40
Military, 1941-45	\$875.49	\$1578.89

Sources: New Deal expenditures, 1933-1939 are from Don Reading, “New Deal Activity and the States, 1933-39,” *Journal of Economic History* 33 (1973): 792-810. Federal Works Agency expenditures are from Federal Works Agency, *Annual Reports* (Washington D.C.: United States Government Printing Office, 1940-1945). Military expenditures are on war supply contracts and industrial facilities and come from Paul H. Anderson, *State, Regional and Local Market Indicators, 1939-46*, Office of Domestic Commerce, Economic Studies No. 67 (Washington D.C., 1948).

The Political Economy of the New Deal ²

Arrington (1969, 1970) noted that New Deal per capita expenditures in high-income Western states exceeded those of the low-income Southern states. If Roosevelt had been rewarding members of his Democratic Party, this trend would have been reversed since the South was solidly Democratic and the West displayed a great deal of variability in its voting for Democratic candidates. Reading (1973) performed an econometric analysis to determine whether New Deal expenditures followed a pattern of “relief, recovery, and reform”—the three R’s outlined by Roosevelt in a 1934 fireside chat. He found that while expenditures did flow toward regions hit hard by the effect of the Depression (those where income fell the most between 1929 and 1933), there was no evidence that a pro-Southern economic reform agenda was addressed. Expanding on these studies, Wright (1974) found that political factors were more important than economic ones in determining the allocation of New Deal spending. Wright noted that if Roosevelt used federal funds to maximize his chances of being reelected, he would have largely avoided spending discretionary dollars in the “solid South.” A dollar spent in a “swing state”—a state with a wide vote variability in presidential elections—would result in greater political productivity. Wright’s empirical analysis finds that political factors explained between one-half and three-quarters of the variability in statewide per capita spending. Wallis’s (1984, 1987, 1998) empirical work has tempered the importance of political factors, but he still concludes that both political and economic factors were important in determining 1930s New Deal spending.³ Most recently, Fleck (1999) de-

veloped and empirically tested a model of the effects of electoral incentives on New Deal spending. He concludes that political factors explain why the traditionally Democratic-voting South received less federal funding between 1933 and 1938. Fleck also finds that the South began to receive an *increased* share of funds between 1938 and 1939 after Roosevelt's political support began to dwindle in the formerly solid South. Fleck's study in particular raises questions of the possible implementation of a reform agenda in the South during the Second World War.

The existing New Deal spending literature, thus, focuses largely on the public-choice finding that the solidly Democratic South was a disproportionate loser in terms of per capita federal spending because its electoral votes were effectively not "in play." However, this literature largely ignores the regional *impact* of New Deal spending. In the next section, we introduce a marginal-impact perspective to propose an additional hypothesis as to why Southern states received less per capita than the non-Southern ones during the Great Depression and World War II.

Why Did the South Receive Less, 1933-1939?

In addition to the political rationale for slighting the South when allocating New Deal expenditures during the 1930s, there may have been valid economic reasons for spending less in Southern states. The Great Depression, after all, was an industrial collapse that exerted the greatest impact on the industrialized Northeast and Great Lakes regions. More agricultural (and hence producing less income-elastic products), the Southern economy suffered relatively less from the macroeconomic downturn than the rest of the country. While the South had not shared in the predominately urban industrial boom during the 1920s, it did not suffer comparatively during the 1930s collapse. Though Southern states, along with many of those in the Midwest, had been disproportionately affected by an agricultural depression since the end of World War I, the added impact of the industrial depression of the 1930s affected the South less than other regions of the country. The South, for example, consistently had the lowest unemployment rates of any region throughout the Great Depression. From a relief (unemployment) and recovery (business failures and other cyclical effects) standpoint, the South had less economic need than other regions. Two of New Deal's three R's, then, were distinctly non-Southern policy needs. The third goal, economic reform, however, clearly applied to the South.⁴

The *effects* of expenditures toward each of these three economic goals, however, were not likely to have been homogeneous. Expenditures put toward achieving the relief and recovery goals were often ends in themselves—many of these dollars could best be classified as private transfers, rather than public goods. Though relief workers were sometimes paid to produce important public goods such as libraries or schools, which could have brought lasting economic benefits to the entire region, the primary goal of 1930s relief-oriented agencies was quickly getting money in the hands of out-of-work Americans, even if that meant—at the extreme—paying some relief workers to dig holes in the ground and paying others to fill them in.

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Expenditures allocated toward the goal of economic reform, however, would have involved more than just putting spending power into individual hands. This idea was perhaps best stated by North Carolina Senator Josiah Bailey who claimed, “there is too much poverty in the South...we will not get rid of it by giving people money” (Carlton and Coclanis 1996, 20). Clearly a government policy dedicated to economic reform would have to strike the problem at its source by putting money toward the construction of schools, roads, hospitals and public utilities. Relief and recovery expenditures, sometimes referred to as “pump-priming,” were intended to restore a developed economic region to its potential by stimulating immediate consumption. Reform expenditures, which were intended to raise a less developed economy to a higher level, focused largely on investments in public goods. By definition, a dollar spent toward the production of a public good brings more social benefit to the region than a dollar spent creating a non-public good producing job. That said, the *marginal social impact* of one dollar toward what one might classify as “reform” spending was likely much higher than a dollar of “relief and recovery” expenditures. If this was the case, empirical findings that the South received disproportionately less federal spending do not necessarily imply that the South *benefited* less from that spending.⁵ Indeed, New Dealers attempting to achieve the three R’s simultaneously—and for the sake of argument in equal proportions—would not have needed to spend as much in reform-needy regions, such as the South, as they would in relief- and recovery-needy ones, such as the Northeast or the Great Lakes regions.⁶

Why Did the South Receive Less Military Spending, 1940-1945?

While an impact-based, public goods analysis reveals potential reasons for spending less in Southern states during the 1930s, a strategic analysis of spending decisions may help to explain the apparent avoidance of the South when spending the large increase in discretionary funds during the first half of the 1940s. As the military emergency began to overshadow the economic one, New Dealers were forced to take strategic defense factors into account when dispersing federal funds.

That is not to say that the Roosevelt Administration could not have used the military emergency and associated increases in federal spending to continue, or even expand New Deal economic goals. Indeed, one possibility is that regions still reeling from the Depression of the 1930s would have been high priority fund-receivers for an important strategic reason—if these areas were to contribute to the war effort, federal funds may have been needed to invigorate their economies. The areas that were hit hardest by the Depression were typically also those that were most economically developed and integrated with the national market. These areas would have represented a sensible starting point for mobilizing the economy for war. In addition, idle labor and capital would mean that a “guns or butter” trade-off was not necessary during the immediate defense build-up. For these reasons, relief and recovery needy regions, those highly concentrated with out-of-work Americans and idle factories, would have been the logical strategic selection for the initial wave of military dollars. Figures 1 and 2 show that states hardest

hit by the depression at the beginning of World War II, i.e. those with the highest unemployment rates in 1940 (counting relief workers as unemployed) and those with the largest declines in per capita income between 1929 and 1939, were located in the Northeast and Midwest—as a region, the South was least afflicted by unemployment and saw the lowest drop in per capita income during the 1930s.

Unemployment 1940

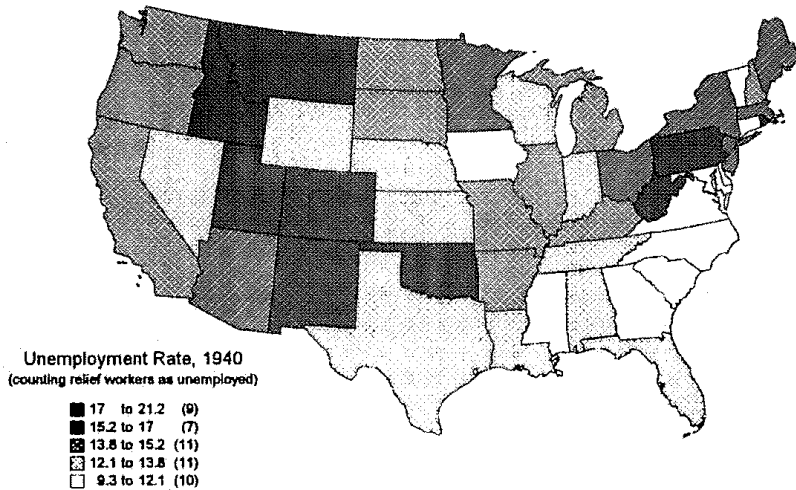


Figure 1

Income Decline, 1929-1939

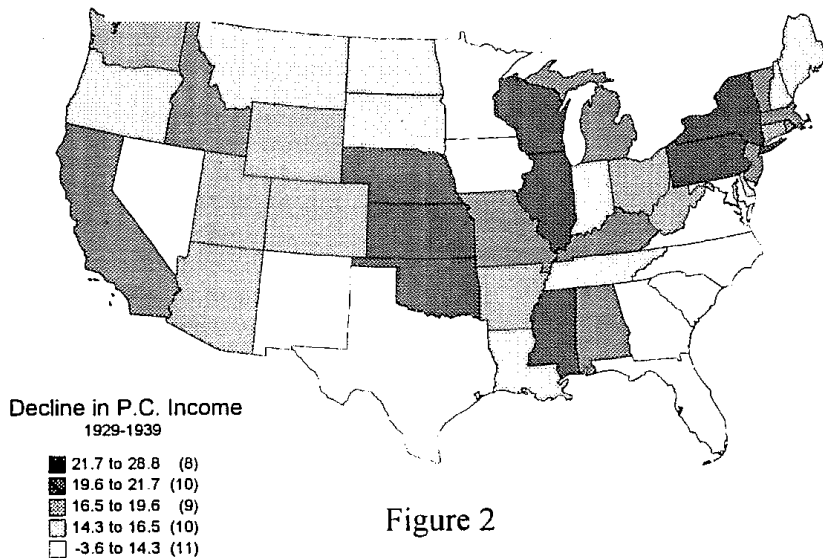
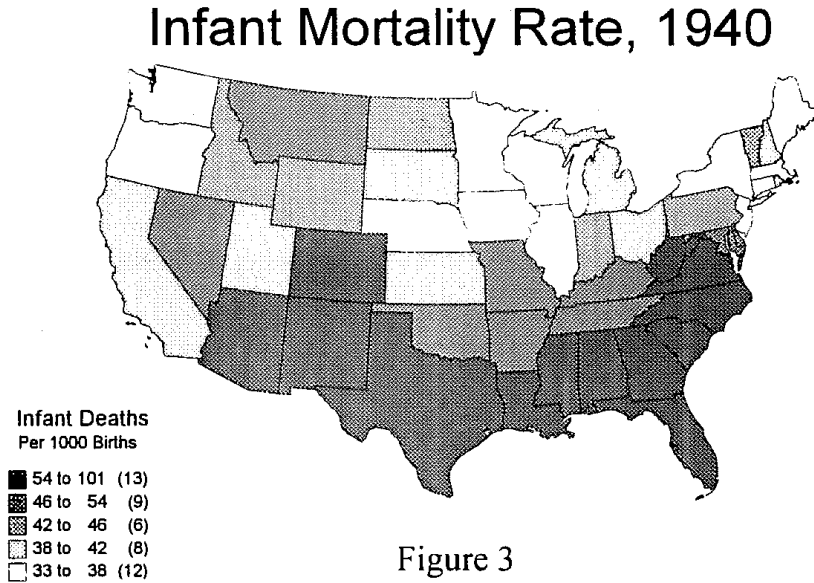


Figure 2

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Economically backward, reform-needy states, however, would not have offered much strategic attractiveness for military production dollars. Figure 3 shows states with the highest infant mortality rates—a common proxy for backwardness—were located in the South. Aside from a few key shipbuilding ports on the Gulf Coast, the South, with its poorly developed infrastructure and a relatively low-skilled labor pool, would have offered military dollars a relatively low strategic return.



To test the hypothesis that strategic factors can explain why the South received less military spending, Table 2 reports the results of a regression examining the determinants of domestic military spending on war supply contracts and war-related industrial facilities between June 1940 and June 1945.⁷ The regression contains the proxy variables used in figures 1 through 3 for the three R's—relief (unemployment), recovery (income drop) and reform (infant mortality)—as well as a coastal dummy.⁸

According to this specification (I), coastal states received \$900.06 more than non-coastal ones, other factors held constant. The reform proxy, infant mortality, is negative and significant. A common way to measure a variable's effect is to multiply its coefficient by one standard deviation. A one standard deviation increase in a state's need for economic reform reduced military spending by \$371.39 per capita, other factors held constant. Both of these results are significant at the one-percent level. Neither a state's need for economic relief nor recovery, as measured by the unemployment rate in 1940 and the income drop between 1929 and 1939, was a significant determinant of military spending, though the coefficients for both were positive.

This specification, however, lacks an important omitted variable, which is only partially captured by the four independent variables—capital-intensiveness. It is likely that three of the most important factors driving *strategic* allocation decisions were proximity to water, skill-level of the labor force, and capital-intensiveness. The degree to which a

Table 2
 Military Spending and the South (OLS, N=48)
 Dependent Variable: Spending on War Supply Contracts
 and War Production Industrial Facilities, 1940-45

	(I)	(II)
Constant	1772.75 (1.63)	913.50 (.90)
Coast	900.06 (2.73)*	802.67 (2.67)**
Infant Mortality	-27.34 (-2.27)*	-18.84 (-1.67)*
Y-drop 1929-39	2599.35 (.94)	4492.33 (1.73)*
Unemployment	6.64 (.11)	-30.18 (-.56)
Capital-Intensive		4280011 (3.20)**
R-squared	.290	.430

**--significant at the 5 percent level.

*--significant at the 10 percent level.

state was endowed with these factors would strongly determine the “bang” an additional buck could provide. The second specification includes a capital-intensiveness proxy. This proxy is the per capita horsepower capacity of all prime movers and motors (steam engines, steam turbines, diesel and semi-diesel engines, and other internal combustible engines) in 1939.⁹ Figure 4 shows that the most capital-intensive states were in the Great Lakes region and the Northeast. A one standard deviation increase in a state’s capital-intensiveness increased per capita spending by \$445.12, other factors held constant. The inclusion of the capital-intensiveness proxy reduces the magnitude of the coastal and infant mortality variables. A one standard deviation increase in a state’s infant mortality rate reduced spending by \$255.97. When including horsepower capacity, coastal states received \$802.67 more per capita. Interestingly, when controlling for capital-intensiveness, states with larger per capita income declines between 1929 and 1939 received significantly more federal dollars. A one standard deviation increase in a state’s income drop increased federal spending by \$298.74. The results both specifications in Table 2 indicate that states with low physical and human capital and poor economic infrastructures received fewer federal war-production dollars. Figures 1-4 show

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that the South disproportionately suffered from all of these maladies. Southern states provided a relatively low strategic return to federal military dollars and therefore received fewer of them.

Capital Intensiveness, 1933

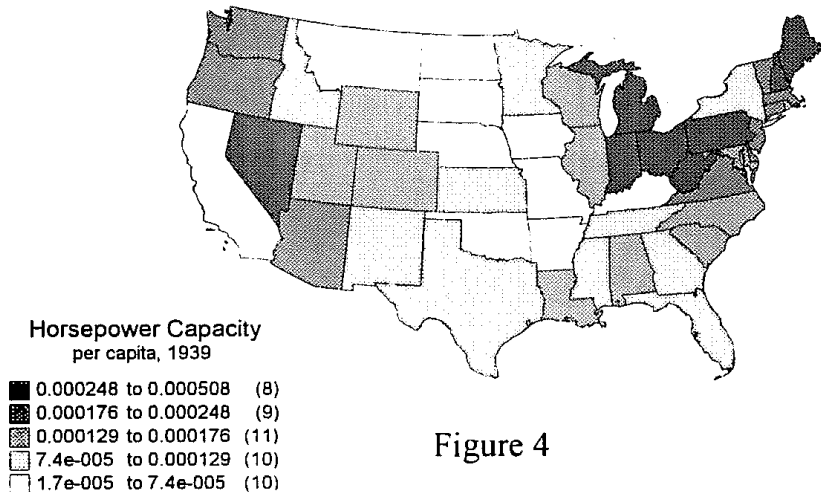


Figure 4

Federal Works Agency Spending and the South, 1940-45

On July 1, 1939, the Roosevelt Administration created the Federal Works Agency (FWA) to oversee the activities of five major 1930s New Deal agencies: the Works Projects Administration (WPA), Public Works Administration (PWA), Public Buildings Administration (PBA), Public Roads Administration (PRA), and the United States Housing Authority (USHA).¹⁰ After Pearl Harbor, two more agencies, the War Public Works (WPW) and War Public Services (WPS) were created and included in the FWA. Though economic factors may have continued to play an important role in the spending patterns of these agencies, the FWA implemented new defense mandates within its sub-agencies almost immediately after its creation. Still, Roosevelt could have used the FWA to follow through on his commitment to the South.

Despite aggregate FWA spending being almost 16 percent lower in the Southern states, Table 3 shows that none of the FWA sub-agencies had a statistically significant bias against the South, with one exception, the WPA.¹¹ The primary economic mission of the WPA—which accounted for over half of total FWA total spending between 1940 and 1945—was to alleviate unemployment. Table 4 reports an OLS regression of WPA spending on two variables, a Southern dummy and 1940 unemployment rates (which count relief workers as unemployed). The Southern dummy coefficient is insignificant, suggesting that the WPA did not avoid spending in the South, *per se*, but rather focused its attention on regions with high unemployment. Because the South had low unemployment, it received the fewer WPA funds.

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Table 3
Federal Works Agency Spending, South versus non-South

Agency	South percent different	t-statistic
WPA 1940-42	-22.9	-2.99*
PWA 1940-42	-20.9	-1.19
PBA 1940-42	+16.6	.50
PRA 1940-42	-5.1	-1.55
USHA 1940-42	+92.6	2.32*
WPW 1942-45	+26.5	.73
WPS 1943-45	+6.5	.17
PRA 1943-45	-2.6	-.09
PBA 1943-45	+30.5	.52

*--significant at the 5 percent level.

Table 4
WPA Spending 1940-42 (OLS, N=48)

Constant	18.99 (1.94)
Southern Dummy	-4.94 (-1.32)
Unemployment 1940	1.61 (2.55**)
R-square:	.268

*--significant at the 5 percent level.

Excluding the WPA, Southern states did not receive significantly less FWA spending between 1940 and 1945. Table 3 shows that many agencies, such as the USHA, whose primary mission was more reform-oriented, showed a favorable Southern orientation during the early 1940s. When WPA funds are left out of Federal Works Agency spending, the South's share looks much different. Per capita spending in the South was \$34.76 compared to \$37.40 elsewhere between 1940 and 1945. Further, this seven percent difference is not statistically significant.

Aside from the WPA, which largely responded to unemployment, and was liquidated in June of 1943 as the labor surplus of the 1930s turned into a labor shortage, the other FWA sub-agencies were essentially public-goods producing, reform-oriented organizations. The PWA, for example, responded to communities' need for public improvements, building hospitals, libraries, waterworks, flood control, and hydroelectric power. The USHA, whose economic mission was to clear slums and build low-rent housing in needy areas, constructed defense housing during the 1940s. The PBA became a principal builder of military bases and training facilities during the war years and constructed many of the nation's bomb and air-raid shelters. The PRA built or widened "strategic"

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roads to allow for faster transport of military goods. With the public works and service infrastructures of many defense centers severely strained by the inflow of defense workers, the WPW and WPS built additional public works capacity—electricity, water, sewage, schools, and child-care—where needed. In addition to fortifying public works capacity in major war-production centers such as Detroit and San Diego, the WPW created public works infrastructures in areas where none previously existed. For example, in Oak Ridge, Tennessee, birthplace of the atomic bomb, “an entirely new city arose in a few months, complete with sewers, streets, waterworks, houses, schools, and hospitals, all built at Federal expense” (FWA 1946, 20). In each of these cases, the expenditures of these agencies had a lasting effect on the economy. Many defense family houses built by the USHA were adapted for civilian use after the war. The PRA-created or widened “strategic” roads remained open for civilian use providing for less costly transportation of goods to markets in the postwar economy. The improved public works infrastructure from power sources to larger modern school buildings remained in place long after the war’s conclusion. In this light, weighing WPA spending—which was primarily focused on job-creation—equally with the spending of public goods creating, reform-oriented agencies when determining long-term regional benefits of New Deal and wartime spending can be misleading.

Conclusion

Our findings do not directly support the hypothesis that federal spending under Franklin Roosevelt initiated Southern recovery from an economic condition that had plagued it since the Civil War. Despite Roosevelt’s stated commitment to the South, per capita federal spending was consistently lower in Southern states than in other regions during both the New Deal of the 1930s and the military emergency of the 1940s. *A prima facie* examination of per capita spending, therefore, would suggest that Roosevelt neglected the South, perhaps for political reasons as past studies of New Deal spending have suggested. We, however, develop both economic and strategic factors to explain why the South received less federal money despite Roosevelt’s commitments to the region.

Further, we introduce the possibility that the *impact* of federal spending during the Roosevelt years, through the less direct and longer-term avenue of public goods, could have benefited the South as much or more than other regions of the country. Two of Roosevelt’s “three R’s,” relief and recovery, were distinctly non-Southern goals since the agricultural and rural Southern economy was relatively unscathed by the effects of the industrial depression. However, the third “R,” economic reform, was something for which the South had a relatively stronger need. Since reform expenditures went almost exclusively toward the production of public goods, which, by definition, benefited a region more than just an individual receiving a government check, while relief and recovery dollars were generally spent with the sole concern of getting money in the hands of out-of-work Americans, reform dollars likely had the strongest economic impact of all federal expenditures.

To illustrate, the Tennessee Valley Authority (TVA), which operated in 201 Southern counties, tamed and harnessed the Tennessee River, lowering transportation costs, reducing the risk of flood, and perhaps most importantly, creating an expanded, low-cost power supply to the region. With these infrastructural improvements in place, the Tennessee Valley region saw its per capita income rise from 45 percent of the national average in 1929 to 64 percent of that average by 1945.¹² Further, industry grew more rapidly in the Tennessee Valley region than in the Southeast and the Nation as a whole between 1933 and 1953.¹³ Despite the fact that TVA dollars did not substantially increase per capita spending in the seven states—Alabama, Georgia, Kentucky, Mississippi, North Carolina, Tennessee, and Virginia—in which it directly operated, these expenditures forever changed the economic landscape of the Tennessee River watershed.

While money spent in economically developed, capital-intensive areas away from the South likely garnered the highest short-term economic and military payoff, dollars expended in Southern states on economic reform projects almost certainly produced the highest lasting economic return. Indeed, the public goods infrastructure (roads, schools, utilities, etc.) of the South was more advanced in 1946 than what it had been in 1932. For this reason alone, the South was in a better position to compete with the North in the postwar economy.

Notes

1. We define the South as Alabama, Arkansas, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, Missouri, North Carolina, South Carolina, Tennessee, Texas, Virginia, and West Virginia.

2. Wallis (1998, 143-150) gives an excellent summary of the 1930s literature upon which this section relies.

3. Wallis finds that New Deal expenditures were large based on formulas that favored small population states. When a population variable is included in spending regressions, political factors become far less significant.

4. Roosevelt's New Deal "reform" arm referred to reforming banking and financial institutions (i.e. the FDIC and SEC) as well as lifting up backward regions, which were faced with chronic poverty.

5. Take two states, each with a population of 1000. Assume that State 1 receives \$1000 of federal spending, all of which goes toward relief payments or non-productive make-work jobs. Per capita spending equals per capita benefit equals \$1. Assume that State 2 receives only \$500 of federal spending, but that this spending goes toward the production of a public good such as a light pole that gives \$10 of utility to each of the state's citizens. Per capita spending in State 2 is only 50 cents, which is lower than State 1, but the social-economic impact on the region, \$10 per capita, is higher than State 1.

6. We are speaking theoretically here. This is not to imply that the Roosevelt Administration necessarily achieved any of these three goals on a wide scale during the 1930s. Indeed public sentiment and economic conditions at the end of the decade imply that none of the three R's were successfully attained by 1940. Still, more specifically, a reform-oriented program such as the Agricultural Adjustment Act of 1933, which restricted farm output in order to drive prices up, did not have as significant an effect on per capita spending as say relief projects in the Northeast, but had important effects on the income of Southern farmers.

7. The military expenditure data are from Paul H. Anderson, *State, Regional and Local Market Indicators, 1939-46*, Office of Domestic Commerce, Economic Studies No. 67 (Washington D.C.: United States Government Printing Office, 1948).

8. Unemployment and infant mortality data are from *Statistical Abstract of the United States* (1940). The income data are from the *Statistical Abstract of the United States* (1948).

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9. Data are from the 1940 Manufacturing Census. Capacity utilization data for each state would be another desirable measure to use to calculate "bang per buck" since regions with a great deal of excess capacity would have been a particularly efficient strategic choice, however these data were not reported until the 1950s.

10. The WPA changed its name from Works Progress Administration the same day.

11. Data are from Federal Works Agency, *Annual Reports* (Washington D.C.: United States Government Printing Office, 1940-1945).

12. *The Tennessee Valley Region Highlights of Growth and Change: Historical Perspective, Recent Trends* (Knoxville, TN: United States Government Printing Office, May 1968)

13. *TVA: Two Decades of Progress* (Washington D.C.: United States Government Printing Office, 1953)

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