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INTRODUCTION TO POLITICAL ECONOMY

<u>SOMMAIRE</u>

INTRODUCTION:

On 11 November 1918, the First World War came to an end. The United States came out on the winning side. A period of prosperity but economic disparity followed for 10 years (1919-1929). Exports to European countries that had suffered great losses needed help to rebuild. American exports of both raw materials and equipment increased. Between 24 and 29 October 1929, a stock market crash occurred on Wall Street. All Americans who had invested massively in companies lost everything. The Down Jones Industrial Average, Wall Street's main stock market index, collapsed by 22.6% at noon on 24 October. After this crisis, there followed a period of crisis with an explosion of unemployment in the United States. Many Americans who had taken out loans before the crash could no longer pay them back, which led to several bank failures. Unemployment exploded with 15 million people unemployed in 1933. In 1929, the incumbent president, Herbert Hoover, remained indifferent to the crisis and to the misery that was taking hold in the country that had previously been the world's greatest power. The 1932 elections elected a new, more ambitious president. At the time of his election, President Franklin Roosevelt made a speech and for the first time used the word NEW DEAL. The president wanted to introduce a new policy that had never been used before a proactive and interventionist policy. How did the New Deal redefine the American model to get out of the crisis?

I) Franklin Roosevelt creates the New Deal to get the US out of the crisis

A) Roosevelt launches the New Deal with the 100 days.

On 3 March 1933, Franklin Roosevelt launched the New Deal in a political speech. This first phase of the New Deal is called "The Hundred Days". During this period, 16 laws were passed which reorganized economic life around the intervention of the state with other actors. Four main lines can be distinguished.

The first line is a 41% devaluation of the dollar to hope for a revival of the economy. The stock market transactions become controlled by a state organization. The second line is the agricultural aspect. Secretary of Agriculture Wallace called for a revaluation of the price of American agricultural production to improve the living conditions of farmers. The third line is the industrial line. The American government set up a system of fair competition between companies to avoid a drop in prices. The state also puts in place social laws such as the minimum wage, the 40-hour work week and other social laws to protect workers. The fourth line is unemployment. In January 1934, the state hired 450,000 civil servants who were then placed in different sectors and services. For example, the VAT law allowed the state to hire unemployed people for urban planning.

B) Roosevelt had set the bar too high.

The first problems came with inflation. In the grand agricultural line of the Hundred Days, Roosevelt wanted to reduce agricultural production while increasing prices. As a result, there was a shortfall in income and agricultural exports fell. Also, many companies disagreed with the social labor laws, such as Ford, one of the biggest American manufacturing companies. The outline of the Hundred Days will create a conflict between the biggest American companies and the state. The Republican party took advantage of this confrontation and even called Roosevelt's government "the horsemen of the apocalypse".

II) A second New Deal to prove that the US is a great power.

A) The state wants to reduce unemployment at all costs

During the first 100 days, measures were taken to stabilize the American economy, and the various measures taken after the end of the first New Deal and during the second New Deal are more in line with the desire to restore confidence in the American economy. The American people were particularly hard hit by unemployment.

The first pro-jobs programmed was set up a hundred days ago, with the aim of reducing the unemployment rate. At that time, Hopkins urged Roosevelt to create the Civil Engineering Administration on November 8, 1933, with the goal of providing jobs for 4 million unemployed Americans. This goal was achieved in January 1934. As a result, the Work Progress Administration was born on May 6 and became one of the main agencies of the New Deal With the creation of unions in 1934, strikes broke out in many companies to protest the refusal of employers to recognize unions. To resolve disputes over this issue, Roosevelt decided to create the National Labor Relations Committee in 1934. Roosevelt wanted employees to join the union. Unionization rates rose rapidly: unionization in manufacturing increased from 9% in 1930 to over 33% in 1940, and unionization in mining increased from 51% in 1930 to over 75% in 1940.

Redistribution of wealth was one of Roosevelt's priorities. He set up a system of social protection at state level: retirement for people over 65, unemployment insurance and various aids for the disabled, as sickness and disability were not included.

B) The end of the New Deal

By 1937, the reform had stalled. Roosevelt was convinced that to ensure the durability of the reform, he had to submit it to the Supreme Court. The purpose of the Act of February 5, 1937 was clearly to break the conservatives: the president ordered the appointment of new justices to judges over 70 who refused to retire. This attack on traditional power unleashed the anger of the people, forcing Roosevelt to abandon the plan. Presidential power became increasingly controversial, and Roosevelt had to intervene to support liberal candidates in the 1938 elections.
In 1937, people's confidence in the economy was restored. Some indicators were back to 1929 levels: production, household consumption and again credit. Although 7 million people were unemployed, the country was worried about inflation and wanted to return to a balanced budget quickly, so it withdrew its support for the economy. This is a transitional stage: at this stage the country will merge ongoing projects, but there are signs of recession, such as investment, prices, and Dow Jones prices. The economic impact of the country's withdrawal soon became apparent: the drop in production and the immediate rise in unemployment proved that growth was not yet self-sustaining. In March 1937, a new stock market crash confirmed the theory of demand support. As a result, the New Dealers turned to a totally Keynesian policy in 1938 to support consumption through fiscal policies: a huge public deficit of 4 billion dollars, housing policies, high wages, social compensation, and control of big business. The last major New Deal law in 1938 was a 40-hour work week. This ended in demonstrations and strikes like in Chicago at the end of May 1938, where 10 people died.

Conclusion:

At the end of the New Deal, unemployment persisted, and economic growth had not yet exceeded that of 1929. However, the social security revolution integrated into society those who had traditionally been excluded, such as the unemployed, farmers and the weak. The economy was modernized: tertiarization of employment, increase in labor productivity, integration of large companies into financial groups, beginnings of management. The country has benefited from major works and now has a developed infrastructure. From an institutional point of view, the New Deal also had a strong impact, increasing the President's place in the political game and asserting the control of federal power over the states, economic forces and social aspirations. The New Deal came to an end in 1938 when rearmament emerged as a new way out of the crisis. The United States gradually moved away from isolationism, especially after 1940 and the French invasion. It was in this international context that Roosevelt was re-elected in November 1940. Thus, despite the interruption of social measures, Roosevelt remained the president of the poorest and a sure guide in the perspective of the war.

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