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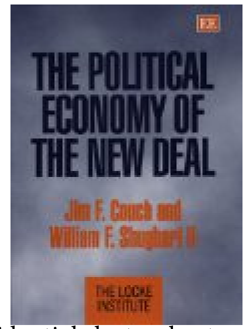
Jim Couch, William F. Shughart II. *The Political Economy of the New Deal.* Cheltemham, UK and Northampton, Mass.: Edward Elgar, 1998. xvi + 247 pp. $85.00 (cloth), ISBN 978-1-85898-899-3.



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The New Deal is certainly one of the most dramatic peace-time expansions of government activity in recorded history. As a result, numerous social scientists and historians have tried to understand the political economy of the New Deal. In particular, a great deal of effort has been devoted to trying to explain the dramatic differences in per capita New Deal spending across states that were first mentioned prominently by Leonard Arrington (1970). Jim Couch and Bill Shughart offer a book-length study that is devoted to explaining those differences using public choice theory.

Franklin Roosevelt gave speeches that argued that the New Deal was designed to promote "Relief, Recovery, and Reform." New Deal administrators like Harold Ickes and Harry Hopkins also consistently talked about noble goals for the New Deal programs. Yet Leonard Arrington's simple comparison of New Deal spending per capita across the states quickly raises questions about how well the New Deal met these goals. There was substantial variation in the distribution of New Deal funds per capita across the states; the West fared well, while the South fared poorly. This has led a number of economists to perform econometric studies of the New Deal. Donald Reading (1973) found that the distribution of funds seem to be associated with improving federal land, building highways, and helping to promote recovery. However, there was little sign that the New Deal money was designed to reform society because money was not being distributed disproportionately to poorer areas. Gavin Wright (1974) then added the issue of presidential politics to the analysis. His results show that the primary goal in distributing New Deal funds was to ensure the reelection of Roosevelt, as money was primarily distributed to swing states and to areas where the money could be used most productively to increase presidential electoral votes. John Wallis (1987) then expanded the sample by obtaining information on New Deal spending from year to year and obtaining more information on the movement of the economic variables over the course of the decade. Wallis emphasized that Congress had structured the New Deal so that state and local governments played a role in determining how much they would receive from the federal government. Wallis also worried about problems of simultaneity bias arising in the coefficients on the unemployment variables. Gary Anderson and Robert Tollison (1991) then added Congressional politics to the mix. Couch and Shughart's contribution to this literature involves a book-length study that describes a wide variety of New Deal spending and loan programs, offers numerous anecdotes about their impact, and performs further econometric analysis on the determinants of New Deal spending and loan across states.

The focus of the book is on developing a public choice analysis of the New Deal. This is not really a new emphasis because all of the previous work has used the same notion that people in government were acting in a self-interested manner. What is new in the book is the combining of the econometric analyses with extensive descriptive material and a very strong negative tone about the motives of the Roosevelt administration. The econometric results from nearly all the studies generally imply that a focus on reelection by political leaders and pressures from interest groups did a great deal to shape the New Deal. Couch and Shughart's econometric results show very little evidence that reform, recovery, and relief were key factors, although earlier econometric work suggests that recovery and relief motives might have played a role. To supplement the econometric results, Couch and Shughart, offer numerous tales of malfeasance in the book, which offer a counterpoint to many books that heap unadulterated praise on the New Deal programs.

People interested in the distribution of New Deal funds should read the book in conjunction with a recent paper by John Wallis (1998) in *Explorations in Economic History*. Wallis's paper in part serves as a book review in the sense that Wallis goes through the analyses of all the prior authors mentioned in the book and tries to compare the results of each analysis using the same data and the same variables as closely as possible. Wallis also offers some new insights that are not in this volume because the book was in press at the time that the Wallis article appeared. Couch and Shughart expand on the earlier econometric work by offering additional material and by disaggregating and examining some of the specific programs.

One of the central issues that Wallis (1998, 1987) was trying to do in his analysis was take into account the impact on New Deal spending of the matching features that were included in some programs, as well as differences in the attitudes of state and local governments toward seeking and obtaining New Deal funds. His technique involved using a lagged value of grants in the New Deal distribution equation in a panel data set. In addition for the period 1937 through 1940, Wallis has tried to directly examine the impact of state spending on New Deal distributions. Couch and Shughart challenge the notion that matching institutions and local attitudes had much impact on New Deal spending. They found evidence from the Congressional Record on the share of WPA projects funded by local sponsors. Regression analysis shows that the sponsor's share of the program was negatively related to the amount of WPA expenditures. Therefore, they argue that there was no simple mechanical relationship between the money provided by state and local governments and the "match" from the federal government. I tend to agree that there was no mechanical relationship, but it is likely that the attitudes and activities of the state and local governments did influence how much effort they devoted to obtaining New Deal funds. Couch and Shughart really do not address this issue well because they do not try to take into account the issues of simultaneity bias in their regression equations. Wallis (1987) has already made the theoretical case that federal government spending and state and local spending are endogenous and that there are feedbacks between the two. Thus, it is somewhat surprising that Couch and Shughart ignore the issue by running simple OLS regressions that ignore the endogeneity issues. They do offer some criticisms of some of the work Wallis has done on the impact of state spending on New Deal funds, but it would seem very important to test the issue directly in their regression analysis.

Couch and Shughart press their argument that state and local activity was relatively unimportant further by claiming that leaders in the South, which received less than other regions, did not oppose New Deal programs. They claim that southerners only opposed the Roosevelt administration late in the 1930s (p. 212). They argue that nearly all of the southern congressmen voted for the Emergency Relief Appropriation Act, and that most of the southern opposition came about in response to the court-packing plan in 1937. Their claims of lack of southern opposition to the New Deal are not very convincing. The vote for the enabling legislation was not even remotely close, suggesting that everybody expected that the legislation would go through because it was just continuing the programs already in existence. Further, they appear to have missed the work of Lee Alston and Joseph Ferrie, who have articles in the *Journal of Economic History* (1985) and in the *American Economic Review* (1993) that show that southern planters were strongly opposed to many New Deal programs, particularly Social Security.

I was surprised by another omission. In their concise history of the Great Depression, they do not mention the work on the impact of the gold standard on the depression by Barry Eichengreen (*Golden Fetters*, 1992). My impression is that most economists and economic historians see Eichengreen's book as the most comprehensive discussion of the issue.

So, what can we learn from the analysis in this book, which also summarizes most of the literature on the issue? Couch and Shughart give strong emphasis to the notion that politics and interest groups were the primary factors shaping the New Deal. Their regression analysis finds little evidence that the distribution of funds matched the noble rhetorical goals of reform, recovery, and relief motives. They dismiss the notion that matching had much impact on the distribution of funds. At this point I am not fully convinced that the New Dealers did not at least partially try to achieve the noble goals in their rhetoric. One issue that cannot be addressed with the econometrics is the idea that the New Deal was conceived to solve a national problem of relief and recovery. In fact, the 1930s led to all sorts of federal legislation on issues that had been the state's preserve because people seemed to believe that these were national problems. It is clear that the Depression did not touch all states equally, but it certainly touched each and every state to some extent. Each state received a significant amount of spending, at least $200 per capita. So Roosevelt, Hopkins, Ickes and the rest of the New Dealers could at least claim that they used resources to foster relief and recovery at a base level in each state. The variation across states shows that other factors determined the distribution beyond this base level. None of the regression analyses by any of the scholars writing on this subject show any sign that the New Deal was reform-minded, a finding consistent with most historians' views of the Roosevelt Administration. It is clear that political maneuvering played an important role in this story in all of the analyses. The question of whether or not the variation also reflected more noble motives is still not fully answered. Different specifications show different results. One problem with the Couch and Shughart analyses is that they do not adequately control for problems with simultaneity bias, which was a central feature of Wallis's earlier analyses. My sense, having followed all of this literature carefully over the past decade, is that the distribution of New Deal funds was complicated. It was driven by some noble goals, some political goals, and certainly by special interest pressures. It was probably driven as well by sheer confusion because there were so many diverse programs that it seems likely (and historians have documented) that the goals of some programs came into direct opposition to the goals of other programs. All of these factors come together into a giant and very complex stew that boiled over into the largest peacetime expansion of government in U.S. history.

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