Why Did the Roosevelt Administration Think Cartels, Higher Wages, and Shorter Workweeks Would Promote Recovery from the Great Depression?

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When the National Industrial Recovery Act (NIRA) of 1933 is discussed, whether at academic conferences or in the classroom, an audience member seems invariably to ask some version of the question embedded in the title of this article. After all, in the presence of the massive unemployment of the early 1930s, a policy of increasing wage rates would be expected to drive a deeper wedge between the quantities of labor being demanded by firms and supplied by households. In addition, shorter workweeks would seem to put increased burdens on workers who were likely already supplying less labor than they viewed as their optimal amount. Finally, economic theory suggests that industry-wide cartels reduce output and economic welfare—which is quite the opposite of a policy designed to promote recovery.

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In short, the three major policies of the NIRA fly in the face of orthodox economic reasoning. We often hear the question *"Didn't Roosevelt and his advisors understand this?"* In fact, all three of these seemingly puzzling policies—collusion (industrial planning), high wages, and shorter hours—were employed in various degrees prior to 1933 for economic reasons, and each had underpinnings that were widely espoused in the interwar era. Thus, the ideas embedded in the NIRA were not as new and radical as is often assumed. In addition to discussing the economic thinking behind these three aspects of the NIRA, this paper outlines the precursors to the NIRA as well as the evolution of the economic thinking on these issues leading up to the law's passage on June 16, 1933. In so doing, we hope to provide a thoughtful answer to the question that is often asked with respect to the motivations behind the NIRA.

Rationale for Raising Wage Rates in the Face of Depression

Anthony Patrick O'Brien (1989) and Jason Taylor and George Selgin (1999) have previously documented the intellectual rise of the "high-wage doctrine" in the two decades prior to the Great Depression. This doctrine advocated the payment of high wage rates as a means of bringing economic prosperity. Specifically, it was believed that when a worker's pay rises, he or she will have more money to purchase goods and services, and this additional demand will entice firms to hire more workers. The labor-demand curve was viewed during this time as effectively upward sloping—higher wage rates, if imposed at an aggregate level, would prompt firms to wish to hire more workers.

It is important to note that this doctrine gained credence during a time of rising productivity owing to technological change. Orthodox theory suggests that rising productivity leads to rising wage rates; however, there were concerns in the 1920s that wage rates were not rising quickly enough for consumption to keep pace with rising production. Such concerns have been expressed in other eras of technological change, including today—see, for example, Fleck, Glaser, and Sprague 2011 and Ravikumar and Shao 2016, which show that manufacturing wages in industrialized countries in the 1990s and 2000s lagged behind productivity growth. These "underconsumptionist" views of insufficient purchasing power in the hands of consumers to buy the rising level of output can be traced back to as far as Barthélemy de Laffemas at the turn of the seventeenth century, although they gained considerable steam with the writings of Robert Owen ([1820] 1970) and Thomas Malthus (1827). Owen and Malthus believed that stagnation and depression were the result of workers not having enough money to buy the increased output that advances in the steam engine had enabled. Karl Marx and Friedrich Engels ([1848] 2002) made a similar argument based in large measure on falling wages and rising profits—or the rate of surplus value. John A. Hobson (1909) sparked a resurgence in this literature in the early twentieth century when he argued for policies of income redistribution to overcome the problem of underconsumptionism.[1]

1. Other monetary-based variants include Sylvio Gesell's ([1916] 1958) notion of idle-money balances and the resulting underexpenditure—and hence the need to incentivize spending by dating money.

In his book *The Way Forward* (1932), Robert Brookings, the founder of the Brookings Institution, offers a nice example of underconsumptionist/high-wage doctrine thinking as it stood just prior to the passage of the NIRA: "We have now the anomaly . . . of a vast production of goods which cannot be distributed although there are millions of people needing them, and in some cases suffering acutely because of their lack. [We require] some modification in our system of compensation providing a more equitable distribution and so increasing the consuming power of the workers" (2).

Henry Ford's policy of paying workers $5 a day—more than twice the going wage at the time—first instituted in 1914 (and raised to $6 in 1919), played a large role in popularizing underconsumptionism theory and the high-wage doctrine. Having revolutionized automobile manufacturing at his Highland Park plant, where worker productivity soared (Beaudreau 1996), Ford claimed that his company's "sales depend in a measure upon the wages we pay. If we can distribute high wages, then that money is going to be spent and it will serve to make . . . workers in other lines more prosperous and their prosperity will be reflected in our sales" (1922, 124). In 1926, Ford attributed his company's success to the high-wage policy it had begun twelve years earlier—"we increased the buying power of our own people, and they increased the buying power of other people and so on" (9). Furthermore, Ford claimed that economic downturns were caused by wage cuts and could be abated by wage increases: "An unemployed man is an out of work customer. . . . Business depression is caused by weakened purchasing power. . . . The cure of business depression is through purchasing power, and the source of purchasing power is wages" (1926, 152–53).

At the start of the Great Depression in the fall of 1929, Ford doubled-down on his high-wage policy and rhetoric. He expressed the "need of increasing the purchasing power of our principle customers—the American people. . . . Wages must not come down, they must not even stay at their present level; they must go up" (quoted in *New York Times* 1929). In fact, Ford raised his company's minimum wage from $6 to $7 a day in November 1929 in an attempt to offset the potential decline in demand in view of the stock-market crash. It is not clear whether Ford actually believed that his own high-wage payments ultimately boosted demand for his cars or so publically cheered for high wages under the belief that demand for his cars was a function of wages paid by all firms and thus that it was important to convince other business owners likewise to keep their wage rates high. The idea that Ford's wage increases could have large general equilibrium impacts that affected demand for his cars seems highly implausible.

Ford's statements and actions in favor of high wages gained many followers among economists, policy makers, and other industrialists. In their book *Business without a Buyer* (1928), William Trufant Foster and Waddill Catchings, two of the most prominent underconsumptionists of the 1920s, noted that "Mr. Ford has helped [employers] see that it is bad business to destroy customers by reducing purchasing power. . . . The best wages that have up to date ever been paid are not nearly as high as they ought to be" (175). Even Irving Fisher noted in 1930, at the start of the Great

Depression, that "Henry Ford was substantially right when he suggested the need . . . of 'increasing the purchasing power of our principle customers—the American people'" (25).

Boston merchant Edward A. Filene was another influential advocate of raising wage rates to fight underconsumption in the 1920s and 1930s. He wrote that low wages "manifestly cut down that widespread and sustained buying power of the masses. . . . The business man of the future must fill the pockets of the workers and consumers before he can fill his pockets" (1924, 201). Furthermore, writing in the *American Economic Review,* Filene claimed that high wages were a boon not just to the worker but also to the employer—"I refer to Henry Ford. He has become the richest man in the world" due to the payment of high wages (1923, 411).

Murray Rothbard shows that Herbert Hoover's actions during his time as secretary of commerce under Presidents Warren G. Harding and Calvin Coolidge were consistently aligned with the claims made by those promoting higher hourly wage rates and that these actions continued when Hoover became president (1963, 178). In November 1929, a month after the stock-market crash, President Hoover held a conference with twenty-three industrial business leaders—Henry Ford, Alfred Sloan, Myron Taylor, Julius Rosenwald, and Pierre Du Pont, among others—in which he asked them to maintain the prosperity level of wages as a means of helping maintain economic prosperity. Jonathan Rose (2010) shows that this conference affected behavior in that these business leaders' companies maintained high nominal wage rates until October 1931 despite the economy's deep slip into depression and a falling price level (which sharply increased real wage rates).

Rose notes that the wage-maintaining behavior of 1929–31 was not normal—in prior downturns, such as the one in 1921, wage rates were cut far more quickly. James Grant (2014) and Gary Pecquet and Clifford Thies (2016) contend that the government's laissez-faire policy of allowing markets to adjust in the early 1920s—that is, of allowing nominal wage rates to fall in the face of falling prices and high unemployment—was a key factor in why the economy recovered quickly from that downturn. Richard Vedder and Lowell Gallaway (1993) note, however, that the policy lesson Hoover and some industrialists took from the recession of 1921 was that the sharp declines in wage rates and prices that year caused the downturn to be more severe, not less. Indeed, John Maynard Keynes said in December 1923 that "the more troublesome the times, the worse does a laissez-faire system work" (quoted in Grant 2014, 205). Industrialists were encouraged to maintain high wage rates in 1929 and 1930 so as to avoid a repeat of the alleged deflationary mistakes of 1921.

Even though the maintenance of high wage rates between 1929 and 1931 did not prevent the Great Depression—in fact, Lee Ohanian (2009) argues that Hoover's wage policy caused the severe downturn—many economists and policy makers still held firm to their belief in the high-wage doctrine as the Depression continued into the 1930s. Rexford Tugwell noted that the "income which is distributed as wages becomes immediate purchasing power. . . . A nation of well-paid workers, consuming most of the goods it produces, will be as near Utopia as we humans are ever likely to get" (1933, 183). Tugwell had direct influence on the formation of the NIRA via his role as one of Roosevelt's key economic advisers, and Roosevelt, in his statement upon signing the NIRA into law on June 16, 1933, highlighted "the greatly increased sales to be expected from the rising purchasing power of the public. . . . The aim of the whole effort is to restore our rich domestic market by raising its vast consuming capacity" (Roosevelt 1938, 251).

The Brookings Institution, headed by Harold Moulton, shared this view. In one study entitled *America's Capacity to Produce* (Nourse and associates 1934), the institution provided sectoral estimates of a large degree of excess capacity. This study was followed by a companion volume entitled *America's Capacity to Consume* (Leven, Moulton, and Warburton 1934), and the underlying idea of these two pieces was that there was a fundamental, economy-wide disequilibrium consistent with the underconsumptionist view. A similar study was carried out by Harold Loeb and his associates (1935), which cited overproduction and underconsumption as the primary culprits causing significant excess capacity in all sectors.[2]

This is not to say that all economists of this era adhered to the underconsumptionist/high-wage doctrine. Benjamin Anderson, an economist for the Chase National Bank, argued in 1933 that the government's approach in raising wage rates in an attempt to fight the Depression "is definitely wrong. I think what the factories need is greatly increased volume, and what labor needs is greatly increased employment. . . . Ultimately as employment increases . . . the aggregate buying power of the country" will likely rise (8). J. E. Meade likewise argued, counter to the high-wage doctrine, that a cut in one worker's pay would not necessarily cut the total buying power of labor. On the contrary, if such a wage cut "did cause sufficient increase in employment, the money wage bill would, in fact, increase" (1936, 62).

Orthodox economic theory suggests that adherents of the high-wage doctrine had reversed the causality chain between wage rates and prosperity. When the economy advances because of higher productivity, the demand for labor increases, and wage rates rise as a result. Thus, prosperity causes high wage rates. However, an exogenous increase in wage rates—that is, one not caused by higher productivity—does not cause prosperity. On the contrary, it will drive a wedge between the labor-supply and labor-demand curves, creating unemployment. But our purpose here is not to evaluate the doctrine's soundness or even its impact—which other works have done (Rothbard 1963; O'Brien 1989; Taylor and Selgin 1999; Taylor 2011; Taylor and Neumann 2016). Our focus is on why the Roosevelt administration advocated a large bump in wage rates in 1933 as a potential cure for unemployment.[3] The answer is the widespread

2. Other works along these lines include Scott 1933; Chase 1934; Moulton 1935; Douglas 1937; and Bell 1940.

3. Incidentally, the National Labor Relations Act of 1935 was also based on these premises. In short, by providing workers the right to bargain collectively, the act would drive up wage rates. Likewise, the Fair

acceptance at that time of the underconsumptionist/high-wage doctrine, which argued that wages need to rise to promote higher levels of demand and employment.

The Rationale for Shorter Workweeks

A second major component of the NIRA was the requirement that firms shorten the workweek. Although 45 to 50 hours was the "standard" workweek in most industries in the years leading up to the Depression, the NIRA's so-called blanket code set 35 hours as the maximum workweek for manufacturing workers.[4] Again, cutting labor hours might seem to be a puzzling policy given that, in aggregate, workers were already working far less than their desired amount. Furthermore, reducing the length of the workweek would do little to increase overall purchasing power, which was the goal of the high-wage doctrine, addressed in the previous section.

Labor unions had pushed hard for reductions in the workweek in the late nineteenth and early twentieth centuries. The primary purpose of this push was to provide more leisure time and a higher quality of life for workers. But it was also believed that a shorter workweek would necessitate that firms hire additional workers to accomplish the fixed amount of work that needed to be done. The idea that the shorter workweek could increase the number of people employed is known as "work sharing." Fred Best (1981) notes that Samuel Gompers, the leader of the American Federation of Labor (AFL), was the first major public figure to push for a shorter workweek as a means of increasing total employment when he put forth this argument in 1887. But it was not until the 1920s that the federal government employed this logic as a rationale for public policy.

As secretary of commerce during the steep downturn of 1921, Herbert Hoover organized the President's Conference on Unemployment, and one of the commission's recommendations for alleviating the unemployment problem was a shorter workweek. In September 1921, firms were asked (though not required) to implement schedules whereby workers rotated on and off work so that multiple workers could staff each scarce position. In fact, the economy began to recover sharply in the third and fourth quarters of 1921, and the unemployment rate fell from 11.3 percent in 1921 to 8.6 percent in 1922 and 4.3 percent in 1923 ("Labor Force" 2018). The average weekly hours worked actually rose from 46 in September 1921 to 47.7 in October and were nearly 50 a year after the commission's work-sharing recommendations were released ("U.S. Average Hours of Work Per Week" n.d.). Clearly, the recommendations did not have any actual effect on industrial policy at this time, and the economy recovered quickly from the sharp downturn.

Labor Standards Act of 1938, which imposed economy-wide minimum-wage rates was motivated largely by the notion that higher wage rates would boost demand (Neumann and Taylor 2013).

4. See Taylor 2011 for details of the President's Reemployment Agreement—more commonly known as the "blanket code," which began on August 1, 1933.

When the nation faced its next major economic slump in 1929, Hoover—this time in his role as president—again pushed for the shorter workweek as a potential cure to unemployment. In his meeting with major industrial executives in November 1929, the president, in addition to pushing for the maintenance of wage rates, also asked his audience to spread available work among all employees by temporarily shortening individuals' workweek (Hoover 1952, 54). Furthermore, in 1930 Hoover created the President's Emergency Committee for Employment (PECE), and the PECE strongly encouraged a shorter workweek with the objective to spread scarce work among more Americans.

Myron C. Taylor, head of U.S. Steel's Finance Committee, went on the radio in December 1930 on behalf of the PECE and announced that his company had held the number of workers employed steady despite the fact that U.S. Steel was operating at only 38 percent of capacity. The reason the firm could do this, Taylor claimed, was that it had cut its average workweek from around 46 hours to 34 hours (Bernstein [1969] 2010, 306). The PECE created pamphlets suggesting ways that companies could efficiently implement shorter shifts so as to spread work among more workers, and many large companies, including Bethlehem Steel, General Motors, AT&T, DuPont, International Harvester, and Westinghouse, claimed that they were following PECE guidelines. Labor approved of these actions when at the AFL convention in October 1930 the AFL's Executive Council endorsed reductions in work hours as a way to alleviate unemployment. In 1932, Hoover created another committee, this one headed by Walter C. Teagle, president of Standard Oil of New Jersey. The Teagle Committee's slogan was "Job Security by Job Sharing," and the committee continued the PECE's work, providing pamphlets and models promoting work sharing.

In fact, the average workweek fell from 49.3 hours in October 1929 to 38.1 hours by October 1931. Todd Neumann, Jason Taylor, and Price Fishback (2013) show that much of this decline in hours worked was directly attributable to Hoover's work-sharing programs. They suggest that even though firms were not legally bound to cut workweeks, they may have done so out of fear that Hoover would shift federal policy toward pro-labor policies if they did not follow his request. A study by the Commerce Department in 1933 suggested that when Hoover left office, 80 percent of the nation's employers had adopted work-sharing policies and that 25 percent of all employees owed their situation to work sharing (Neumann, Taylor, and Fishback 2013, 107).

With the arrival of the Roosevelt administration in 1933, organized labor saw an opportunity to get a still shorter workweek embedded via legislation rather than simply through encouragement and jawboning. AFL president William Green proposed a 6-hour day, five-day workweek (i.e., 30 hours), and in response Senator Hugo Black (D) of Alabama introduced a bill to legislate a 30-hour week. This bill passed the Senate on April 6, 1933. With unemployment at its peak of 25 percent, the enthusiasm to spread the increasingly scarce amount of work among more Americans was very strong. When the NIRA was submitted to Congress in May 1933, further reductions in the workweek so as to continue to promote work sharing was a major component of the bill's approach to promoting reemployment.

"To Plan or Not to Plan No Longer Seems to Be the Question"

On May 5, 1933, the *Wall Street Journal* proclaimed, "To plan or not to plan no longer seems to be the question." The article reported news of the bill that would become the NIRA. This bill was centered upon the idea of industry-specific "codes," which would outline fair and unfair trade-practice provisions intended to facilitate industry-level coordination and planning. The movement toward industrial planning had been brewing since the purported success of the War Industries Board (WIB), which had operated between July 1917 and December 1918. During these eighteen months, the WIB had made decisions on how to allocate the nation's resources in a way that was unprecedented in U.S. history. The Allies had also won World War I in this period, thus giving the WIB an aura of success even though there was in fact a small decline in output under the WIB.[5]

In addition to pointing to the purported success of the WIB, those who pushed for more economic planning generally believed that there was a systemic unfairness inherent in the competitive market system of the United States, whereby large firms had come to dominate most industries.[6] Interestingly, the word *competition* appears nineteen times in the text of the NIRA bill, and in eighteen of these instances it is directly preceded by the word *fair*. Thus, the framers of the bill clearly believed that the industrial structure of the 1930s was unfair and needed a major overhaul. Members of the Roosevelt administration often used the adjective *ruinous* to describe this state of competition.

So what exactly was "ruinous competition," and what made it different from "fair competition"? Many contemporaries pointed to the competitive system's "destructive" price cutting by large firms or these firms' "irresponsible" overproduction as the cause of the Depression. Large firms such as the Ford Motor Company were purportedly producing too much output and hence driving prices down to a level so low that many of the smaller firms could not stay in business. Such business failures meant job losses. In retrospect, in many cases this "unfair competition" was simply a by-product of what Alexander Field dubs the "most technologically progressive decade of the century," whereby the firms that took advantage of the new production techniques charged prices too low for those that did not adopt them to survive (2011, 19).

Industrial planning was also intertwined with the imposition of higher wage rates and shorter hours. After all, if only some firms in an industry raised wage rates and cut hours, free-riding firms could keep their wage rates low and take advantage of the alleged boost to demand from the higher wages paid by their competitors. Similarly, with respect to reductions in the workweek, if one firm offered longer workweeks—which most workers desired—higher-quality workers would migrate to this firm and

5. See the Miron–Romer seasonally adjusted measure of industrial production in Romer 1994.

6. This theme had been present in the general election of 1912, when the Progressives under Teddy Roosevelt campaigned in favor of small firms over the new, large, vertically integrated conglomerates.

away from the ones that imposed cuts to hours. In modern parlance, the policies faced a perceived "prisoner's dilemma" problem. Although cuts to the workweek and raises in wage rates in aggregate were viewed as being collectively optimal, they were not individually rational. Thus, enforceable industry-wide rules (i.e., planning) had to be put into place.

Another important, competition-related issue was the question of investment in new capacity. The Roosevelt administration expressed concern that the ruinous competition observed in the downturn was related to the presence of excess capacity, which had been brought about by the application of mass-production techniques. One way to prevent such occurrences would be for firms to collectively agree on the timing of additions to capacity—or to prohibit them until economic conditions returned to normal. Ideally, then, industries would evolve over time in a more harmonious and planned manner. In fact, thirty-two industries would include limitations on the installation of new productive capacity in their NIRA codes (Pearce 1939, 91).

Tugwell was perhaps the most avid proponent of industry-level planning among those in Roosevelt's Brain Trust. He argued that with the emergence of large vertically and horizontally integrated firms, planning within the firm was already displacing the market as the relevant allocative mechanism (Tugwell 1927, 1933). Thus, by the 1930s, firms such as General Electric and Ford were effectively engaged in extensive planning because they controlled so much of their relevant markets as well as many of the various stages of production. Tugwell felt that the next logical step was for industries as a whole to engage in the planning of wages, hours, production, and capital investment and that the result of this planning would be a more stable and prosperous economy.

Similar views were held by another member of Roosevelt's Brain Trust, Columbia University law professor Adolph Berle, who had, along with Gardner Means, studied the changing nature of corporate governance in America. Berle and Means (1932) concluded that large-scale management structures had replaced the small-scale entrepreneur and that this replacement had far-reaching consequences. Specifically, they posited that firms no longer maximized profits or yields on investment, as predicted by economic theory—the profit-maximizing entrepreneur had essentially ceased to exist and been replaced by a new class of managers whose objectives were multifaceted. Thus, economic planning provided an alternative to either shareholder-dominated or manager-dominated forms of corporate governance.

The movement toward planning was also reflective of a broad movement worldwide toward industrial self-government in the early twentieth century. In the United States, the movement was focused on ways to better direct and coordinate industrial activity. For example, in April 1919 executives of ten major companies, including General Electric, Standard Oil, Bethlehem Steel, General Motors, International Harvester, and Goodyear, formed the Special Conference Committee (SCC). The SCC met several times a year during the 1920s and early 1930s and discussed key industrial issues, such as industrial representation, wages, hours of work, pensions, and factory conditions, among others. In its annual report for 1923, the SCC noted that the committee was "a distinctive place of service to the companies represented" through a "frank interchange of experiences in industrial relations and . . . a willingness to exchange such information, much of which is ordinarily treated as confidential" (SCC 1920–23, 48). Clearly, the firms involved in the SCC felt that they were gaining value from the coordination that resulted from these meetings.

The committee members adopted a set of principles that would guide their firms—most of which dealt with progressive issues such as improving employee morale, health, training, and safety. For example, in 1919 the SCC recommended that employees "be invited to choose representatives from among their number to meet and deal directly with management" (SCC 1920–23, 7). Joseph McCartin notes that these industrialists' actions represented an attempt to "go partway" toward meeting the demands of organized labor (1996, 80–81). Indeed, the SCC's actions—and those of the social capitalism movement in general in the United States—may be best viewed as an attempt by industrialists to preempt strong unionization (Ozanne 1967). In support of this notion, it is interesting to note that labor unions generally opposed employee-representation plans such as those recommended by the SCC because they might appeal to workers as a viable alternative to collective-bargaining agreements (McCartin 1996, 81). Robert Ozanne notes that SCC members also supported and coordinated a high-wage policy among their firms in 1930 and 1931 at the onset of the Depression (1967, 159), but it is not known whether this high-wage policy was an attempt to stave off unions or to promote purchasing power in order to abate the Depression or both.

From the perspective of government–business relations during the Harding and Coolidge administrations, Secretary of Commerce Hoover advocated a form of limited planning, known as the "associative state" (Hart 1998). Specifically, Hoover felt that government should work in concert with industry to ensure overall stability and growth. According to Ellis Hawley, "Hoover in 1921 saw himself as the protagonist of a new and superior synthesis between the old industrialism and . . . a way whereby America could benefit from scientific rationalization and social engineering without sacrificing the energy and creativity inherent in individual effort . . . and private enterprise" (1974, 117). In fact, throughout his tenure at the Department of Commerce, Hoover created administrative structures that would facilitate industry–government cooperation. One such structure was in the field of information gathering as in 1921 Hoover helped initiate the *Survey of Current Business,* which published data on current industry production, prices, and inventories. This survey followed up on the creation of the National Industrial Conference Board during World War I, which collected data and prepared reports dealing with industrial issues.

Another movement related to the broad thrust toward industrial planning was that of the Technocrats. Throughout the late 1920s and early 1930s, the engineering profession experienced a growing interest in various forms of economic and social planning. It was believed that the market-coordination device had not brought an adequate transition to the new equilibrium-growth path in light of the rapid technological change of the early twentieth century. Thus, in 1932 Howard Scott and

Walter Rautenstrauch created the Continental Committee on Technocracy, which advocated the abolition of the market and its replacement by a new "economic" elite consisting of enlightened engineers, the "Technocrats," who would use their knowledge of technique to maximize output and wealth via a form of comprehensive planning (Scott 1933).

A recurrent theme in all of these various movements in the 1920s and early 1930s was the perception that the market had failed to fully exploit the economy's newfound potential. Leaders of these movements saw themselves as being at the vanguard of a new approach to economic and social organization and thus were largely dismissive of traditional economic doctrines. For example, Tugwell asked the rhetorical question, "Where, in all of this, have the economists been?" His answer was that "they have been lost in a tradition. A Classical structure built upon early nineteenth-century premises has continued to furnish theoretical problems. . . . [D]evelopments which have remade industry under their very noses have escaped analysis" (1933, 87).

Thus, the NIRA's promotion of industry-level cooperation can be seen as the outgrowth of rising interest in comprehensive economic planning designed to unlock America's newfound economic potential. By 1933, with the economy entering its fourth year of depression, "to plan or not to plan" no longer seemed to be the question. The issue was simply how planning would occur—and the answer was through the NIRA's "codes of fair competition," under which industries could better coordinate economic activities.

The Evolution of the NIRA and Its Prototypes

The NIRA was drawn up, introduced in Congress, and signed into law in a period of around six weeks in May and early June 1933. But this act, which would institute both pro-labor policies and industrial planning (i.e., collusion), had some important precursors in the years leading up to its passage.

The earliest prototype of the NIRA was the Trade Practice Conference Division (TPCD) of the Federal Trade Commission. Under this program, which began in 1926, members of individual industries were able to come together under the auspices of their trade association and draft rules of "fair competition."[7] These industry "codes" were then submitted to the TPCD and, if approved, had the force of law, just as the "codes of fair competition" under the NIRA would have. Robert Himmelberg notes that the number of trade-practice conferences in which codes were submitted to the TPCD rose from a small handful in 1927 to around fifty in 1929 (1976, 62)—businesses clearly felt that there were gains to be had from coordination under this program. Each approved code dealt specifically with the key issues faced within that industry and outlined trade practices that were considered either illegal (Group I rules) or legal but unethical and

7. See Himmelberg 1976, 62–64, for an overview of the TPCD.

undesirable in the eyes of the majority of industry members (Group II rules). However, according to Himmelberg, by 1928 the TPCD "was permitting the inclusion of rules in the codes which were intended to suppress competition, not merely make it 'fair'" (1976, 63). Viewed in this light, the NIRA's implementation of codes of fair competition in 1933 was not such a dramatic departure from past practice.

The TPCD was disbanded under President Hoover in 1929. Even though Hoover was Coolidge's secretary of commerce when the TPCD was created, he was less lenient toward antitrust relaxation than his predecessor. After the Depression began later that year, however, there were new calls for industrial planning along the lines of the TPCD. In September 1931, General Electric's president Gerard Swope proposed what became known as the "Swope Plan." The plan would require firms to administer life insurance, pensions, disability insurance, and unemployment insurance for their employees. To help coordinate this plan, Swope proposed, industries would yield autonomy to trade associations, which, in addition to supervising employee insurance programs, would regulate industrial output and prices. The proposal was seen as a quid pro quo—industry would gain the ability to coordinate but would make concessions to workers. Of course, the NIRA is generally viewed as being just such a quid pro quo. President Hoover did not support the plan, however, calling it "the most gigantic proposal of monopoly ever made in history" (quoted in Hawley 1966, 42). Although Congress did not formally consider the Swope Plan, Himmelberg notes that the idea of economic planning via trade associations thereafter became a major topic of discussion in policy circles and that conferences on employing antitrust reform as a means to ending the Depression blossomed at universities.

In a follow-up to the Swope Plan, Senator Gerald Nye (R–N.D.) introduced a series of bills in December 1931 that would have provided antitrust immunity for trade-practice provisions approved by the Federal Trade Commission. Nye's plan essentially was to bring back a new version of the TPCD. Similarly, in January 1932, Senator David Walsh (D–Mass.) submitted a bill that would have allowed industries to fix prices at fair and reasonable levels, and in June 1932 Walsh introduced a separate bill that would have suspended antitrust laws for two years—just as the NIRA would do.

The Davis–Kelly bill of 1932 was another clear NIRA prototype, although it was geared toward just one industry rather than toward the economy as a whole. In January 1932, Senator James Davis (R–Pa.) and Congressman Clyde Kelly (R–Pa.) introduced a bill that would give workers in the bituminous coal industry the right of collective bargaining while also giving coal producers the ability to cooperate on issues of production and prices. Although the Senate's Committee on Mines and Mining held hearings on the bill, the bill failed to get past the committee level (Lauck 1936). On February 29, 1932, Representative David Lewis (D–Md.) introduced a separate bill creating a "coal operators board" that would be charged with administering quotas for mine operators as a means of stabilizing prices and output in the industry (Fisher and James 1955). Again, this bill was unsuccessful.

Senator Hugo Black's 30-hour-week bill, proposed in April 1933, can also be viewed as a prototype of the NIRA; however, it covered only the work-sharing aspects of the act and had no provisions regarding wages or industrial planning. In fact, President Roosevelt opposed the Black bill because he feared that cutting the workweek without raising hourly wage rates would create dangerous declines in workers' take-home pay and hence in their purchasing power. In mid-April, Roosevelt adviser Raymond Moley met with Senator Robert F. Wagner (D–N.Y.) to discuss the development of a more comprehensive alternative to the Black bill. On April 22, Wagner invited several individuals associated with recovery planning to meet and draw up a proposal. What emerged over the next few days was a bill largely in line with the desires of business for more trade-association-led planning, like what had occurred under the TPCD between 1926 and 1929, but also containing provisions to raise hourly wage rates and reduce the workweek. Furthermore, the bill would suspend antitrust laws so as to facilitate industrial planning.

The final bill was submitted on May 17. Although business leaders were generally opposed to the labor provisions, the potential gains from self-governance outweighed these concerns. The bill passed the House of Representatives by a vote of 325 to 76 on May 26 and passed the Senate by a vote of 46 to 39 on June 13. President Roosevelt signed the bill into law on June 16, 1933.

Conclusion

The National Industrial Recovery Act, passed during the depths of the Great Depression of the 1930s, raised hourly wage rates, shortened the workweek, and promoted industrial cooperation. Today, orthodox economic theory views all three of these polices as contractionary. Why, then, did the Roosevelt administration and the Congress think such a mix of policies would end the Depression?

The push for higher wage rates was in direct response to a rising intellectual tide of belief in the high-wage doctrine and the theory of underconsumption. Stated briefly, proponents of these views believed that low wages led to low demand and employment and hence to stagnation and depression. If wage rates were increased, it was believed, purchasing power, demand, and employment would rise, and prosperity would follow. Although this theory was not novel to this era, it saw a resurgence in the economics literature of the time (e.g., Hobson 1909; Filene 1923, 1924; Foster and Catchings 1928), and it was popularized by the statements made and actions taken by Henry Ford, in particular his $5 (and later $6 and $7) per day wage.

Shorter workweeks were put into the NIRA to promote "work sharing"—the spreading of scarce employment opportunities to more workers. The work-sharing movement had been gaining steam since the recession of 1921, when Secretary of Commerce Hoover advocated shorter workweeks as a means of combating that slump. In 1930, the President's Emergency Committee for Employment strongly encouraged shorter workweeks. Two years later, the Teagle Committee further pushed for work sharing under the slogan "Job Security by Job Sharing." In fact, the average hourly workweek fell sharply from 49.3 hours in October 1929 to 38.1 hours by October 1931. Policy makers apparently believed that work sharing was helping to combat the problem of unemployment because in April 1932 Senator Hugo Black's bill imposing a 30-hour workweek passed the Senate. The NIRA was formulated by the Roosevelt administration in the weeks that followed as a more comprehensive recovery bill that included provisions for work sharing alongside other recovery-oriented policies.

The NIRA's imposition of policies promoting collusion was a response to a growing belief in the efficacy of industry-led planning. As the 1920s progressed, scholars and policy makers increasingly adopted the view that there was a systemic unfairness inherent in the competitive economic system, which could be remedied through the imposition of industry-level planning. Again, policies promoting industrial planning clearly predated the NIRA: between 1926 and 1929 the Trade Practice Conference Division of the Federal Trade Commission allowed firms to coordinate activity within industries—under the auspices of their trade association—and to draft rules of "fair competition." In some cases, industrialists may have used the progressives' calls for more planning to overcome market unfairness as cover their objective of achieving collusive outcomes. It is also possible that some industrialists actually believed in the efficacy of planning with regard to the achievement of economic efficiency.

To economists today, the set of policies embedded in the NIRA—higher wages, a shorter workweek, and the promotion of collusion—seems to be a puzzling response to the Great Depression because each of these policies is contractionary when viewed in the light of orthodox economic theory. However, many industrialists and policy makers at the time viewed them as logical responses to issues that had confronted the economy of the 1920s and early 1930s. Seen this way, the NIRA was less an act of what Roosevelt would call a "bold, persistent experimentation" than an umbrella of labor and industrial policies that had been called for—and implemented on smaller scales—in the years leading up to 1933.

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