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Hello, I'm 1930s America, and I Have a Recovery Problem: A Review of George Selgin's *False Dawn*

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Link to Abstract

Shortly after I agreed to write a review essay of George Selgin's *False Dawn: The New Deal and the Promise of Recovery, 1933–1947* (University of Chicago Press, 2025) for *Econ Journal Watch*, an editor from another outlet approached me about reviewing it, suggesting that I was someone who "would give it a fair-minded review, which is not easy to come by with a book like this." By "a book like this," I assumed the editor meant that *False Dawn* was yet another polemical treatment of the New Deal.

Full disclosure: Thirty years ago, I was a graduate student at the University of Georgia, where Prof. Selgin became an invaluable research mentor to me. I'll never forget his comment in response to one my first attempts at an academic paper: "Don't be so polemic—that's not good scholarship." I took these words to heart and have used them as a North Star throughout my academic career.

As I waited to receive my advance review copy of *False Dawn*, I crossed my fingers that my former mentor had not gone against his own advice. Thirty years can certainly change a person. A sense of relief came over me when I read, two pages into the preface, "Having said what *False Dawn* is, I had better say what it isn't. It isn't—and I hope no one will take it to be—a polemic." Selgin acknowledges that we all have our prejudices—he declares his as "those of a neoclassical economist

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with a libertarian bent"—and it is nearly impossible to escape them. But, he writes, "If strident critics of the New Deal find grist for their mills here, they will also encounter arguments and evidence contradicting some of their cherished beliefs."

Franklin Delano Roosevelt's New Deal consisted of "three R's"—relief, recovery, and reform. Selgin focuses on the middle "R." He states his primary research questions: "How did the United States recover from the Great Depression? And what was the New Deal's contribution to that recovery?"

Those who are familiar with the Great Depression will know that after a contraction of nearly four years the economy hit rock bottom in March 1933, the very month that Roosevelt took office. The NBER officially declares the 50 months from March 1933 to May 1937 as belonging to an "expansionary" phase of the business cycle. Although the economy then entered a severe 13-month recession, there then followed an 80-month expansion. This ended when output contracted sharply upon the conclusion of World War II as the federal government disbanded most of the military and shut down munitions factories.

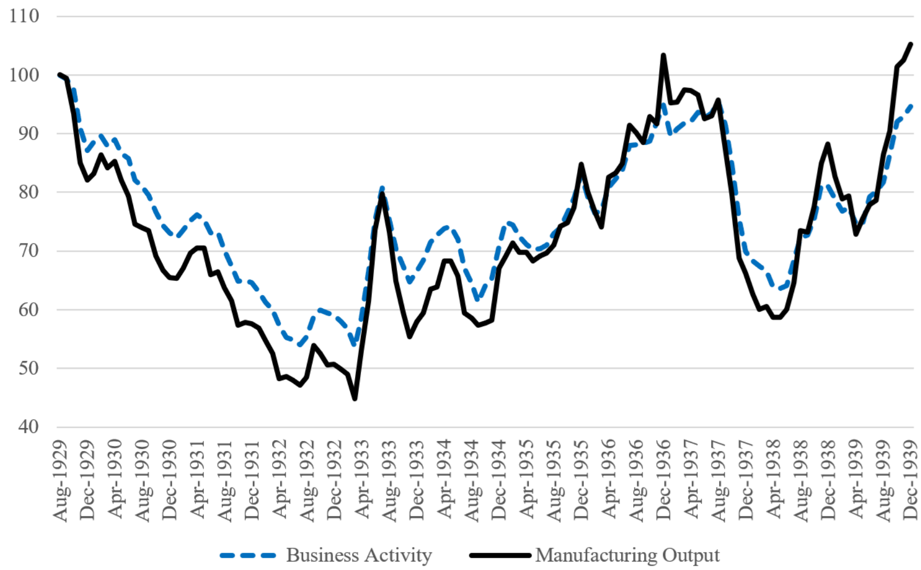
From these facts, one may conclude that FDR's New Deal policies would receive high grades with respect to economic recovery. But the economic healing post-March 1933 was anything but even. In fact, during 20 of the 50 months encompassing the "expansion" of 1933 to 1937, seasonally adjusted manufacturing output fell from the previous month. Extending further out, of the 74 months between April 1933 and May 1939, manufacturing output rose in only 42 of them.

Furthermore, some of the New Deal-era downturns (not all of which were officially declared recessions) were real doozies. Manufacturing output fell 20 percent between August and December 1933, and it fell by another 17 percent between May and September of 1934. For comparison, manufacturing output fell 15 percent during the 2020 recession and by 19 percent across the 18-month recession of 2007–09.[2] The 13-month recession of 1937–38 was truly horrific, with manufacturing output falling 39 percent, while a broader index of overall business activity fell 33 percent.

Data, however, also seem to show some impressive recovery bursts. In the four months following Roosevelt's inauguration (March–July 1933), manufacturing output surged by 78 percent. The two years between mid-1935 and mid-1937 saw manufacturing production rise 42 percent. This measure rose by a remarkable 79 percent between June 1938 and December 1939. Figure 1 resembles a Coney Island rollercoaster. How did FDR's policies contribute to these sharp ups and downs?

2. U.S. Bureau of Labor Statistics, Manufacturing Sector: Real Sectoral Output for All Workers [OUTMS], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/OUTMS, February 17, 2025.

Figure 1. Movements in Manufacturing Output and Business Activity During the 1930s



Source: Manufacturing Output is "Index of Production of Manufactures, Seasonally Adjusted" from NBER Macrohistory Database series m01054. Business Activity series is "Index of Physical Volume of Business Activity, Babson" from NBER Macrohistory Database series m01001. Both measures were indexed to August 1929 = 100.

False Dawn is broken into 26 succinct and eminently readable chapters. They are consistently around 10 to 12 pages. The book's primary approach is to announce and carefully motivate the topic of the chapter at hand and then to bring forth and summarize a plethora of relevant work—both recent and classic—to address how said policy affected recovery. Selgin adds plenty of his own views and evidence to the ledger. The range spans programs and policies like the bank holiday, the Reconstruction Finance Corporation, the Agricultural Adjustment Act, the National Industrial Recovery Act, the Home Owners' Loan Corporation, the gold standard, the Works Progress Administration, the Federal Deposit Insurance Corporation, the Wagner Act, the Undistributed Profits Tax, and many fiscal and monetary policy events of the 1930s.

False Dawn is not a one-man show. For each topic, Selgin fairly represents and evaluates the key arguments on all sides. Still the book is much more than just a literature review. It is an immense work of scholarship, synthesizing decades of work, with a heavy focus on more recent developments.

In chapter two, "Inventing the New Deal," for instance, Selgin asks whether Roosevelt had a coherent vision of what the New Deal would become when he took office in March 1933. While Eric Rauchway (2015; 2018) has recently argued strongly that he did, the traditional view is that FDR's policies were formulated largely on the fly. A variety of evidence, old and new, is carefully weighed. Although the ledger appears to tilt against Rauchway's thesis, Selgin (2025, 27) concedes that if Roosevelt had planned all along to suspend the gold standard and devalue the dollar, "he could hardly have afforded to put the word out in advance." Furthermore, Selgin charitably notes that even if Roosevelt did not begin his term with specific plans for ending the Depression, that doesn't mean "that he lacked convictions or had no good reasons…for the steps he eventually took" (28).

It could be added that two of the major economic studies (Temin and Wigmore 1990; Eggertsson 2008) suggesting that the New Deal was the impetus behind the 1933 turning point and recovery contend that FDR's "regime change" during the spring of 1933 was both sudden and unexpected. And the suddenness is precisely why these policies had such a dramatic expansionary impact. Selgin concludes that, in the end, whether Roosevelt had secretly planned these unanticipated actions (seemingly unlikely)—such as leaving gold and signaling an openness to deficit spending after campaigning so strongly on a balanced budget—or chose to engage in them on the fly makes little difference. What matters are the results.

Prerequisite to any meaningful recovery was stopping the bank failures and restoring confidence in the financial system, and Selgin credits some New Deal policies with both. Specifically, while arguing that deposit insurance has its pros and cons, Selgin concurs with conventional wisdom that the March bank holiday and the establishment of the FDIC, under the Banking Act of June 16, 1933, were significant steps toward recovery (52).

An interesting twist (which this reader did not know) is that FDR was adamantly against deposit insurance. In a private letter to a supporter, FDR said that this policy "would lead to laxity in bank management and carelessness on the part of both banker and depositor" (57). In fact, Selgin notes, FDR threatened to torpedo the whole banking bill unless deposit insurance was taken out. Only after it became apparent that Congress had enough votes to override his veto did the president agree to support the Banking Act. Thus, a policy viewed as one of FDR's signature New Deal successes was, in fact, one that he had fought to prevent. The consummate politician, Roosevelt took credit for the program after signing it, which appears to be why he now gets credit for it. Selgin also highlights the under-the-radar importance of capital infusions from the Reconstruction Finance Corporation—a program created under the Hoover Administration, but expanded under Roosevelt—in allowing banks to open back up in the spring of 1933 (68). Experts who have plunged deeply into the New Deal's 1933 financial reforms may already know these details, but most readers will not.

False Dawn provides a comprehensive treatment of the National Industrial Recovery Act (NIRA), which many economists rightly view as one of the most damaging New Deal policies with respect to economic recovery. While covering studies purporting that the program's labor and cartel provisions worked to reduce aggregate output and employment, Selgin also highlights a minority view that the NIRA was expansionary since *any* policy that raised inflation expectations in 1933—which the NIRA surely did—would have helped bring down real interest rates and boosted aggregate demand (Eggertsson 2008; 2012). Though Selgin does not shut the door completely on this viewpoint, he presents refutations of other scholars as caveats.

As someone who has spent two decades studying the NIRA, I appreciate the heavy attention (chapter 10) that *False Dawn* gives to a 1935 non-partisan report by the Brookings Institution (Lyon et al. 1935). This contemporary appraisal—carried out by a team that included members of the National Recovery Administration itself—was widely praised upon its release, but it has been largely ignored aside from a few footnotes here and there by recent academicians, and I include myself (Taylor 2019). The real-time views of the people on the ground certainly brings unique value.

I learned much from Selgin's seeming appreciation of the views of John Maynard Keynes. Today Keynes is viewed by many economists as a caricatured purveyor of big-government solutions, and the New Deal is widely viewed (generally either for good or bad) as a Keynesian policy. Those opposed to Keynesian-style ideas often point to the lack of sustained recovery from 1933 to 1939 as evidence against broad fiscal intervention during a recession. Keynesian supporters, meantime, often tout the alleged success FDR had in rescuing the US economy after March 1933—or at least getting the economy to turn the corner from depression to recovery—as evidence supporting the potential benefits of other ambitious government projects such as a Green New Deal. Selgin makes it clear that both are out of bounds by highlighting a great chasm between Keynes and Roosevelt.

Another standout for me was *False Dawn*'s treatment of New Deal policies in the context of "animal spirits" (another Keynesian staple). While FDR famously declared in his inaugural address that "the only thing we have to fear is fear itself," Selgin convincingly makes the case—strongly put forth by Robert Higgs (1997) among others—that one of the largest obstacles to sustained recovery post-1933 was the uncertainty that FDR's unpredictable policies often created. Keynes himself, in 1934, noted that US recovery was being inhibited because the "intangible state of mind, which we call business confidence, is signally lacking" since the economic system has been "driven so far from its accustomed moorings into unknown and uncharted waters." At the start of the New Deal business "was carried away, like other people, by the prevailing enthusiasm" for Roosevelt's program, but now [that is, 1934] it looks "back with longing to the good old days of 1932" (quoted in Selgin 2025, 230). The remark fits Higgs' evidence about widespread worries of state collectivism among Americans.

Selgin notes that even six-time Socialist Party presidential candidate Norman Thomas considered business's "lack of confidence…a great factor" in causing the 1937–38 recession. FDR's erratic and unpredictable policies, Thomas argued, gave the jitters to the investing class "because of uncertainties with regard to his future program" (230–231). In an October 1936 campaign speech, FDR famously noted that big business was "unanimous in their hate of me… And I welcome their hatred" (237). When the president of the United States declares a verbal war against business, this can create nothing but fear itself for industry, thus stifling business investment.

I was also impressed with the final chapters of the book, which deal with WWII and the postwar era. Why didn't the economy fall back into depression, as was widely predicted? Instead, the economy in 1946–47 at last achieved lasting economic recovery. Was it because of a wide swing toward appropriate fiscal or monetary policy after heavy mismanagement during the 1930s? No. A main element was a sharp upswing in business investment. But what was behind that? Selgin synthesizes the views of scholars such as Robert Collins (1981), Gary Best (1991), and Alan Brinkley (1995) who claim that government and business finally buried the hatchet and made peace with one another—which is also a major theme for Higgs (2006). Fears about an avid march into collectivism subsided. With government no longer at war with business, the economy could finally move past the Great Contraction.

My largest quibble with *False Dawn* is that Selgin repeatedly refers to the recovery that began shortly after FDR took office as a mere "boomlet." While this term has been used previously to describe the episode, it needs to be retired. Although short in duration, its magnitude was practically nuclear. As shown earlier in Figure 1, it took 44 months for manufacturing output to fall from its index level of 100 in August 1929 to its rock bottom of 45. Then, in 1933, it took only *four months* for this index to climb back to 80, nearly two-thirds of the way back to its starting point.

The 78 percent jump in manufacturing output—albeit from a low base—is entirely unprecedented. No other four-month period in US history has seen a recovery boom like it. Not even close. In fact, the next closest four-month jump in manufacturing output (going back to 1884 when the measure was first collected) was a 23 percent jump that occurred in late 1934. Output of durable goods, which tend to respond to expectations and confidence, soared—get this—*200 percent during these four months*. And the Dow Jones Industrial Average also rose a remarkable 71 percent across this so-called "boomlet" (Taylor and Neumann 2016). Furthermore, the number of unemployed Americans fell from 14.4 million to around 11 million. Thus, nearly one-quarter of the unemployment problem was solved in just four months.

This was no "false dawn" of zodiacal light. The sun was clearing the horizon and, with the banking crisis appearing over, Americans were enthusiastically expecting a brighter future. If only the economy had continued its ascension toward high noon—but alas, it sank just as quickly as it rose. The following statement is admittedly an example of why Mark Twain made his famous quip about statistics, but I'll make it anyway. Since manufacturing output in the summer of 1939 sat right at its August 1933 level, one could factually say that *all* the net recovery between FDR's inauguration and the outbreak of war in Europe occurred during those first four months. A book about the New Deal and the promise of recovery should, in my view, have focused more attention than it does on this remarkable recovery period and its causes.

Something went right in the spring of 1933. While Selgin points toward banking and financial reforms as promoting an expectations-based recovery (*a la* Temin and Wigmore 1990), he also highlights more than once the literature contending that the spring 1933 recovery was simply a fool's-gold temporary boom. The argument is that firms moved production up in anticipation of the cost increases that would accompany the NIRA's labor and cartel provisions. But if firms were bringing production forward in time, we would expect to see some rise in business inventories—in fact inventories appear to have shrunk during these months—suggesting that this argument may be oversold (NICB 1940). More importantly, the first hints that something like the NIRA was on the horizon did not arrive until early May, and the media-dubbed "spring revival" had been well underway since late March (Taylor and Neumann 2016).

The real shame in dismissing the spring 1933 recovery as a mere "boomlet" is that it discounts the tremendous harm that came when this remarkable recovery suddenly dried up in August 1933. The National Industrial Recovery Act re-snatched depression from the jaws of recovery. The NIRA was more than a bump in the road to recovery, it was a train wreck that undid much of the positivity of those first few weeks. These accomplishments included ending the banking crisis and the deflationary spiral, creating up to half a million direct jobs through the legalization of beer—and likely still more by raising the "spirits" of the nation through this reform of Prohibition (Taylor 2024)—unshackling the dollar from gold, and giving Americans a voice of confidence and hope.

Another minor quibble—or question—is that while *False Dawn,* particularly in its final third, highlights the massive contemporary opposition towards the New Deal and its role in dimming the nation's business confidence or animal spirits, I sometimes found myself wondering, "so just how did FDR end up winning reelection three times?" Furthermore, how does all this relate to the findings of

Shawn Kantor, Price Fishback, and John Wallis (2013), which suggest that the New Deal helped solidify the Democratic political realignment for the next three decades? These authors show that increases in a county's New Deal relief and public works spending increased long-run voter support for the Democratic party in subsequent elections. Thus, the New Deal must have been popular in some circles.

False Dawn is a remarkable achievement. I cannot overstate how impressed I am with the scope, tone, and content of this book. And, to be quite clear, this is not at all a polemical treatment of the New Deal. It is a fair-minded and comprehensive examination of New Deal programs' various impacts—sometimes positive and other times negative—on recovery.

Of course, the 1930s New Deal had three R's. It would be a wonderful service to the profession if other scholars (or even Selgin himself) were to take up companion books—modeled after the approach of *False Dawn*—dealing respectively with various New Deal policies' impacts (both the pros and cons) on short term "relief" and long-term "reform."

The New Deal is fast approaching its centennial. *False Dawn* shows that there is still so much to learn—and much to be gained in doing so.

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