Spending Through Crisis

Federal spending and its critics during the Great Depression

USH.C.4.3.B "Describe how national policies, based upon John Maynard Keynes' theory of deficit spending, addressed the economic crisis, and evaluate the critiques of centralized economic planning and management."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline federal policies, circle their effects on jobs or spending, and number two critiques of government action so you can compare how the policies worked with the arguments against them.

Who Should Spend When Businesses Stop?

1. In 1933, a shuttered factory in a struggling town meant more than lost wages: its workers bought less food and clothing, so nearby stores suffered too. During the Great Depression, millions of Americans were unemployed, and private businesses were reluctant to hire. The federal government launched work programs, including the Works Progress Administration (WPA), which paid people to build roads, schools, and parks. Workers could then spend their pay in local shops. These programs offered immediate jobs and aimed to restore demand, but the early New Deal was not simply a plan copied from economist John Maynard Keynes.

2. Keynes argued that when private spending collapses, government can spend more than it collects in taxes, borrowing to cover the gap. This deficit spending can increase demand and encourage businesses to hire; governments can reduce deficits as the economy recovers. President Franklin Roosevelt did not consistently follow this approach. In 1937, his administration cut federal spending while new Social Security payroll taxes reduced workers' take-home pay. The economy fell into another downturn in 1937 and 1938, showing the risks of pulling support back too soon. During World War II, much larger federal deficits helped bring full employment as war production expanded.

3. Deficit spending also drew criticism. Borrowing can leave future taxpayers with debt, especially if officials keep spending after a crisis ends. Other critics warned that centralized economic planning gives distant officials too much power over what gets produced and where resources go. They argued that officials cannot gather all the local knowledge reflected in prices and choices, so their plans may waste resources or limit freedom. Yet paying for public jobs during a slump is not the same as ordering every factory what to make. The key debate is how much government direction a crisis requires and when it should end.

2 ANSWER WITH EVIDENCE

Use the passage

1. How could WPA jobs help businesses beyond the work sites?

2. How did the 1937 policy changes differ from what Keynes recommended during weak private spending? What followed?

3. Using the passage, explain one benefit of deficit spending during a crisis and one concern about using it for too long.

4. Why might critics distrust centralized economic planning? Explain why their critique does not mean every public jobs program controls the whole economy.

3 YOUR TURN

Your own words

Suppose a recession closes several local stores, and Congress considers borrowing to repair aging water pipes. In four sentences, state whether you support the policy, explain how it might affect jobs and demand, consider one critique from the passage, and defend your decision in light of that critique.

ANSWER KEY

Spending Through Crisis

HIGH SCHOOL · USH.C.4.3.B

PART 1 · READ AND MARK

Underline federal policies, circle their effects on jobs or spending, and number two critiques of government action so you can compare how the policies worked with the arguments against them. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	How could WPA jobs help businesses beyond the work sites?	**WPA workers earned wages and spent them in local shops, increasing demand for those businesses.**
2	How did the 1937 policy changes differ from what Keynes recommended during weak private spending? What followed?	**Rather than maintain support through government spending, the administration cut spending, while new payroll taxes reduced take-home pay. The economy entered another downturn in 1937 and 1938.**
3	Using the passage, explain one benefit of deficit spending during a crisis and one concern about using it for too long.	**It can raise demand and encourage hiring, but continued borrowing can leave future taxpayers with debt.**
4	Why might critics distrust centralized economic planning? Explain why their critique does not mean every public jobs program controls the whole economy.	**Officials may lack local knowledge and make wasteful decisions or limit freedom. Funding public jobs does not require the government to direct what every factory produces.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

Congress should borrow to repair aging water pipes while the recession keeps private hiring weak. The project would hire workers, whose wages could support local stores and encourage other employers to hire. Critics could argue that federal officials may miss local needs and spend money on repairs that are less urgent than other projects. I would still support the program if local communities identify the pipes most in need and Congress limits borrowing as the economy recovers.

Accept a supported decision either for or against the proposed policy. Responses should connect borrowing to jobs and demand, then address a specific concern about debt, local knowledge, waste, or government power.