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THE GREAT DEPRESSION AND THE NEW DEAL, 1929–1939

Once I built a tower, to the sun.
Brick and rivet and lime,
Once I built a tower,
Now it's done,
Brother, can you spare a dime?

E. Y. Harburg and Jay Gorney,
"Brother, Can You Spare a Dime?," 1932

When the new Democratic president, Franklin D. Roosevelt, said in his 1933 inaugural address, "the only thing we have to fear is fear itself," he struck a note that the millions who listened to him on the radio could well understand. In 1933, after having experienced nearly four years of the worst economic depression in U.S. history, Americans were gripped by fear for their survival.

In the past, overproduction and business failures had periodically caused economic downturns measured in months that would be followed by recovery and eventual prosperity. These depressions and recessions were thought to be nothing more than part of the natural rhythm of the business cycle in a free market economy. However, depressions that included widespread bank failures and the collapse of investment and credit systems often resulted in long-term and deeper depressions extending several years, such as the depressions of 1837, 1873, and 1893.

This depression of the 1930s felt different. It lasted far longer, caused more business failures and unemployment, and affected more people—both middle class and working class—than any preceding period of hard times. This was in fact not just an ordinary depression, but the *Great Depression*. Before it was over, two presidents—Herbert Hoover and Franklin Roosevelt—would devote 12 years to seeking the elusive path toward recovery.

Causes and Effects of the Depression, 1929–1933

What caused the spectacular business boom of the 1920s to collapse dramatically in October 1929?

Wall Street Crash

The ever-rising stock prices had become both a symbol and a source of wealth during the prosperous 1920s. A "boom" was in full force both in the United States and in the world economy in the late 1920s. On the stock exchange on Wall Street in New York City, stock prices had kept going up and up for 18 months from March 1928 to September 1929. On September 3, the Dow Jones Industrial Average of major stocks had reached an all-time high of 381. An average investor who bought $1,000 worth of such stocks at the time of Hoover's election (November 1928) would have doubled his or her money in less than a year. Millions of people did invest in the boom market of 1928— and millions lost their money in October 1929, when it collapsed.

Black Thursday and Black Tuesday Although stock prices had fluctuated greatly for several weeks preceding the crash, the true panic did not begin until a Thursday in late October. On this Black Thursday—October 24, 1929—there was an unprecedented volume of selling on Wall Street, and stock prices plunged. The next day, hoping to stave off disaster by stabilizing prices, a group of bankers bought millions of dollars of stocks. The strategy worked for only one business day, Friday. The selling frenzy resumed on Monday. On Black Tuesday, October 29, the bottom fell out, as millions of panicky investors ordered their brokers to sell —but almost no buyers could be found.

From that day on, prices on Wall Street kept going down and down. By late November, the Dow Jones index had fallen from its September high of 381 to 198. Three years later, stock prices would finally hit bottom at 41, less then one-ninth of their peak value.

Causes of the Crash

While the collapse of the stock market in 1929 may have triggered economic turmoil, it alone was not responsible for the Great Depression. The depression throughout the nation and the world was the result of a combination of factors, and economists continue to debate their relative importance.

Uneven Distribution of Income Wages had risen relatively little compared to the large increases in productivity and corporate profits. Economic success was not shared by all, as the top 5 percent of the richest Americans received over 33 percent of all income. Once demand for their products declined, businesses laid off workers contributing to a downward spiral in demand, and more layoffs.

Stock Market Speculation Many people in all economic classes believed that they could get rich by "playing the market." People were no longer investing their money in order to share in the profits of a company—they were speculating that the price of a stock would go up and that they could sell it for a quick profit. *Buying on margin* allowed people to borrow most of the cost of the stock, making down payments as low as 10 percent. Investors depended on the price of the stock increasing so that they could repay the loan. When stock prices dropped, the market collapsed, and many lost everything they had borrowed and invested.

Excessive Use of Credit Low interest rates and a belief of both consumers and business that the economic boom was permanent led to increased borrowing and installment buying. This over-indebtedness would result in defaults on loans and bank failures.

Overproduction of Consumer Goods Business growth, aided by increased productivity and use of credit, had produced a volume of goods that workers with stagnant wages could not continue to purchase.

Weak Farm Economy The prosperity of the 1920s never reached farmers, who had suffered from overproduction, high debt, and low prices since the end of World War I. As the depression continued through the 1930s, severe weather and a long drought added to farmers' difficulties.

Government Policies During the 1920s, the government had complete faith in business and did little to control or regulate it. Congress enacted high tariffs which protected U.S. industries but hurt farmers and international trade.

Some economists have concentrated blame on the Federal Reserve for its tight money policies, as hundreds of banks failed. Instead on trying to stabilize banks, the money supply, and prices, The Federal Reserve tried to preserve the gold standard. Without depositors' insurance, people panicked to get their money out of the banks, which caused more bank failures.

Global Economic Problems Nations had become more interdependent because of international banking, manufacturing, and trade. Europe had never recovered from World War I, but the United States failed to recognize Europe's postwar problems (The United States reacted differently after World War II. See Chapter 26). Instead, U.S. insistence on loan repayment in full and high tariffs policies weakened Europe and contributed to the worldwide depression.

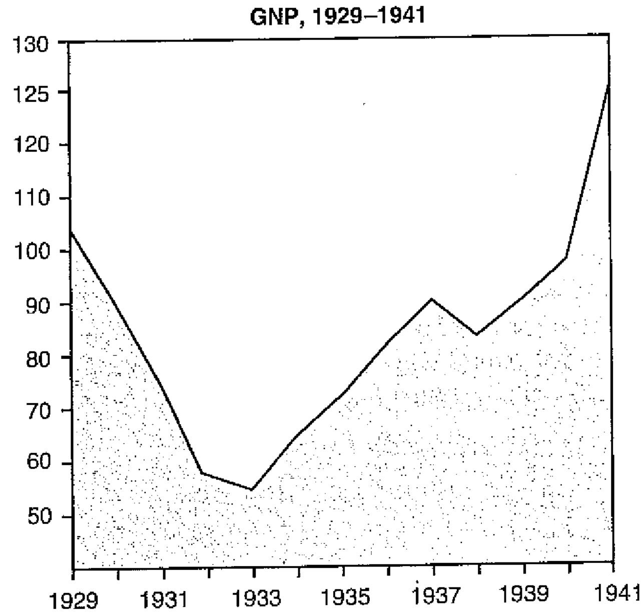
Effects

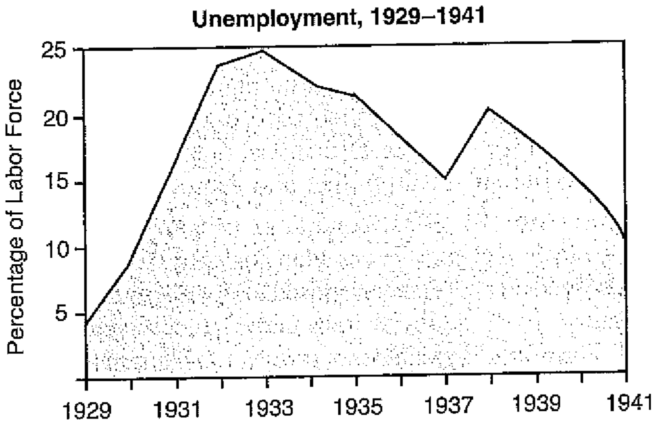
It is difficult to imagine the pervasive impact of the Great Depression. While in retrospect it can be seen that the economic decline reached bottom in 1932, complete recovery came only with the beginning of another world war, in 1939. The Great Depression's influence on American thinking and policies has even extended beyond the lifetimes of those who experienced it.

Various economic statistics serve as indicators that track the health of a nation's economy. The U.S. Gross National Product—the value of all the goods and services produced by the nation in one year—dropped from $104 billion to $56 billion in four years (1929 to 1932), while the nation's income declined by over 50 percent. Some 20 percent of all banks closed, wiping out 10 million savings accounts. As banks failed, the money supply contracted by 30 percent. By 1933, the number of unemployed had reached 13 million people, or 25 percent of the workforce, not including farmers.

The crash ended Republican domination of government. People accepted dramatic changes in policies and the expansion of the federal government.

The social effects of the depression were felt by all classes. Those who had never fully shared in the prosperity of the 1920s, such as farmers and African





Source: U.S. Bureau of the Census. *Historical Statistics of the United States, Colonial Times to 1970*

Americans, had increased difficulties. Poverty and homelessness increased, as did the stress on families, as people searched for work. Mortgage foreclosures and evictions became commonplace. The homeless traveled in box cars and lived in shantytowns, named "Hoovervilles," in mock honor of their president.

Hoover's Policies

At the time of the stock market crash, nobody could foresee how long the downward slide would last. President Hoover was wrong—but hardly alone—in thinking that prosperity would soon return. The president believed the nation could get through the difficult times if the people took his advice about exercising voluntary action and restraint. Hoover urged businesses not to cut wages, unions not to strike, and private charities to increase their efforts for the needy and the jobless. Until the summer of 1930, he hesitated to ask Congress for legislative action on the economy, afraid that government assistance to individuals would destroy their self-reliance. Gradually, President Hoover came to recognize the need for more direct government action. However, he took the traditional view that public relief should come from state and local governments, not the federal government.

Responding to a Worldwide Depression

Repercussions from the crash on Wall Street were soon felt in the financial centers of Europe. Through trade and the Dawes Plan for the repayment of war debts, European prosperity was closely tied to that of the United States. Hoover's first major decision concerning the international situation was one of the worst mistakes of his presidency.

Hawley-Smoot Tariff (1930) In June 1930, the president signed into law a schedule of tariff rates that was the highest in history. The Hawley-Smoot Tariff passed by the Republican Congress set tax increases ranging from 31 percent to 49 percent on foreign imports. In retaliation for the U.S. tariff, however, European countries enacted higher tariffs of their own against U.S. goods. The effect was to reduce trade for all nations, meaning that both the national and international economies sank further into depression.

Debt Moratorium By 1931, conditions became so bad both in Europe and the United States that the Dawes Plan for collecting war debts could no longer continue. Hoover therefore proposed a moratorium (suspension) on the payment of international debts. Britain and Germany readily accepted, but France balked. The international economy suffered from massive loan defaults, and banks on both sides of the Atlantic scrambled to meet the demands of the many depositors withdrawing their money.

Domestic Programs: Too Little, Too Late

By 1931, Hoover was convinced that some federal action was needed to pull the U.S. economy out of its doldrums. He therefore supported and signed into law programs that offered assistance to indebted farmers and struggling businesses.

Federal Farm Board The Farm Board was actually created in 1929, before the stock market crash, but its powers were later enlarged to meet the economic crisis. The board was authorized to help farmers stabilize prices by temporarily holding surplus grain and cotton in storage. The program, however, was far too modest to handle the continued overproduction of farm goods.

Reconstruction Finance Corporation (RFC) This federally funded, government-owned corporation was created by Congress early in 1932 as a measure for propping up faltering railroads, banks, life insurance companies, and other financial institutions. The president reasoned that emergency loans from the RFC would help to stabilize these key businesses. The benefits would then "trickle down" to smaller businesses and ultimately bring recovery. Democrats scoffed at this measure, saying it would only help the rich.

Despair and Protest

By 1932, millions of unemployed workers and impoverished farmers were in a state bordering on desperation. Some decided to take direct action to battle the forces that seemed to be crushing them.

Unrest on the Farms In many communities, farmers banded together to stop banks from foreclosing on farms and evicting people from their homes. Farmers in the Midwest formed the Farm Holiday Association, which attempted to reverse the drop in prices by stopping the entire crop of grain harvested in 1932 from reaching the market. The effort collapsed after some violence.

Bonus March Also in the desperate summer of 1932, a thousand unemployed World War I veterans marched to Washington, D.C., to demand immediate payment of the bonuses promised them at a later date (1945). They were eventually joined by thousands of other veterans who brought their wives and children and camped in improvised shacks near the Capitol. Congress failed to pass the bonus bill they sought. When two veterans were killed in a clash with police, Hoover ordered the army to break up the encampment. General Douglas MacArthur, the army's chief of staff, used tanks and tear gas to destroy the shantytown and drive the veterans from Washington. The incident caused many Americans to regard Hoover as heartless and uncaring.

The Election of 1932

The depression's worst year, 1932, happened to be a presidential election year. The disheartened Republicans renominated Hoover, who warned that a Democratic victory would only result in worse economic problems.

Democrats At their convention, the Democrats nominated New York Governor Franklin D. Roosevelt for president and Speaker of the House John Nance Garner of Texas for vice president. As a candidate, Roosevelt pledged a "new deal" for the American people, the repeal of Prohibition, aid for the unemployed, and cuts in government spending.

Results In voters' minds, the only real issue was the depression, and which candidate—Hoover or Roosevelt—could do a better job of ending the hard times. Almost 60 percent of them concluded that it was time for a change. The Roosevelt-Garner ticket carried all but six states, Republican strongholds in the Northeast. Desperate for change, many Socialists deserted their candidate, Norman Thomas, to support Roosevelt. Not only was the new president a Democrat but both houses of Congress had large Democratic majorities.

Hoover as "Lame-Duck" President For the four months between Roosevelt's election and his inauguration in March 1933, Hoover was still president. However, as a "lame duck," Hoover was powerless to cope with the depression, which continued to get worse. He offered to work with the president-elect through the long period, but Roosevelt declined, not wanting to be tied to any of the Republican president's ideas. The Twentieth Amendment (known as the *lame-duck amendment*), passed in February 1933 and ratified by October 1933, shortened the period between presidential election and inauguration. The amendment set the start of each president's term for January 20.

Franklin D. Roosevelt's New Deal

The new president was a distant cousin of President Theodore Roosevelt and was married to Theodore's niece, Eleanor. More than any other president, Franklin Delano Roosevelt—popularly known by his initials, FDR—expanded the size of the federal government, altered its scope of operations, and greatly enlarged presidential powers. He would dominate the nation and the government for an unprecedented stretch of time, 12 years and two months. FDR became one of the most influential world leaders of the 20th century.

FDR: The Man

Franklin Roosevelt was the only child of a wealthy New York family. He personally admired cousin Theodore and followed in his footsteps as a New York state legislator and then as U.S. assistant secretary of the navy. Unlike Republican Theodore, however, Franklin was a Democrat. In 1920 he was the Democratic nominee for vice president. He and James Cox, the presidential candidate, lost badly in Warren G. Harding's landslide victory.

Disability In the midst of a promising career, Roosevelt was paralyzed by polio in 1921. Although he was wealthy enough to retire, he labored instead to resume his career in politics and eventually regained the full power of his upper body, even though he could never again walk unaided and required the assistance of crutches, braces, and a wheelchair. Roosevelt's greatest strengths were his warm personality, his gifts as a speaker, and his ability to work with and inspire people. In 1928, campaigning from a car and in a wheelchair, FDR was elected governor of New York. In this office, he instituted a number of welfare and relief programs to help the jobless.

Eleanor Roosevelt Roosevelt's wife, Eleanor, emerged as a leader in her own right. She became the most active first lady in history, writing a newspaper column, giving speeches, and traveling the country. Though their personal relationship was strained, Eleanor and Franklin Roosevelt had a strong mutual respect. She served as the president's social conscience and influenced him to support minorities and the less fortunate.