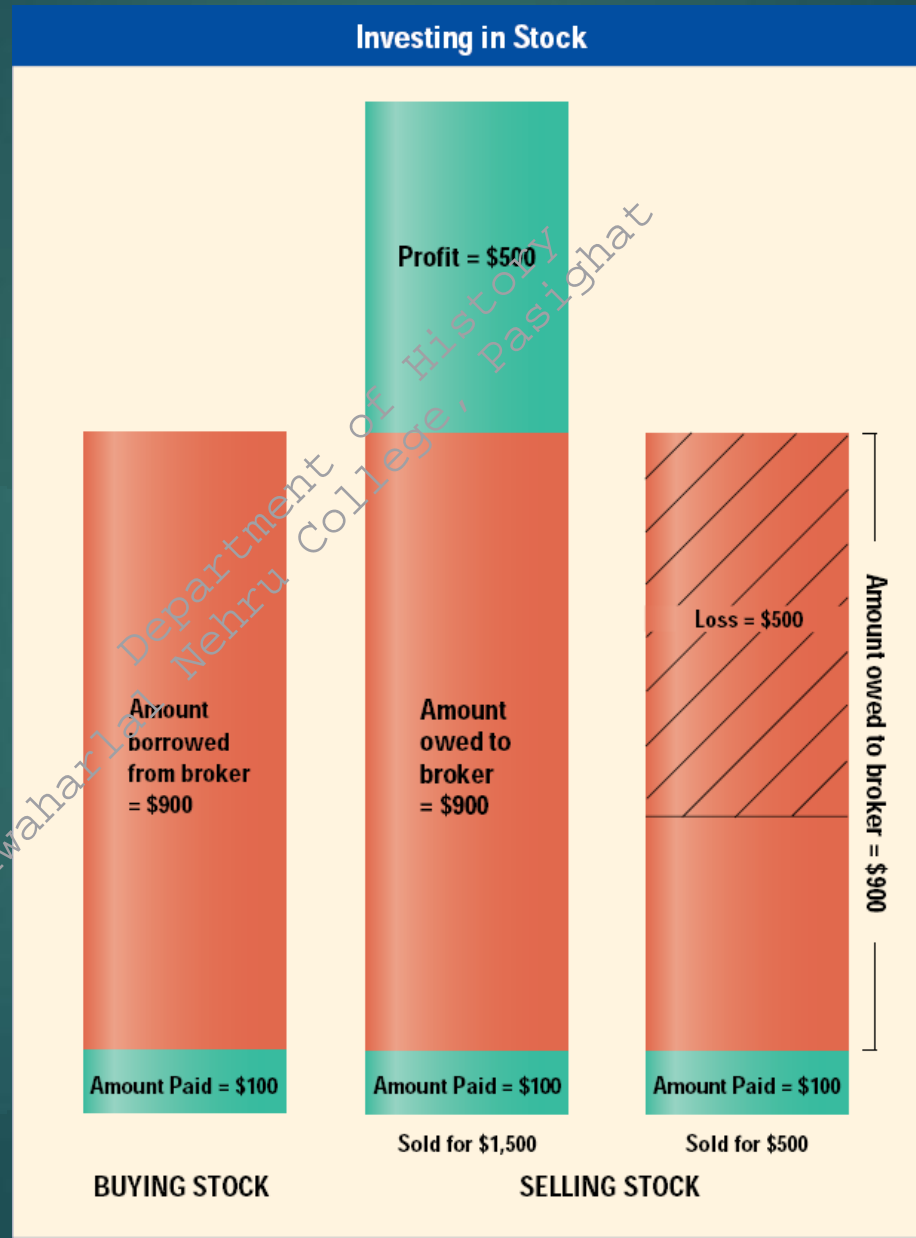


# The Great Depression & New Deal

1929-1939

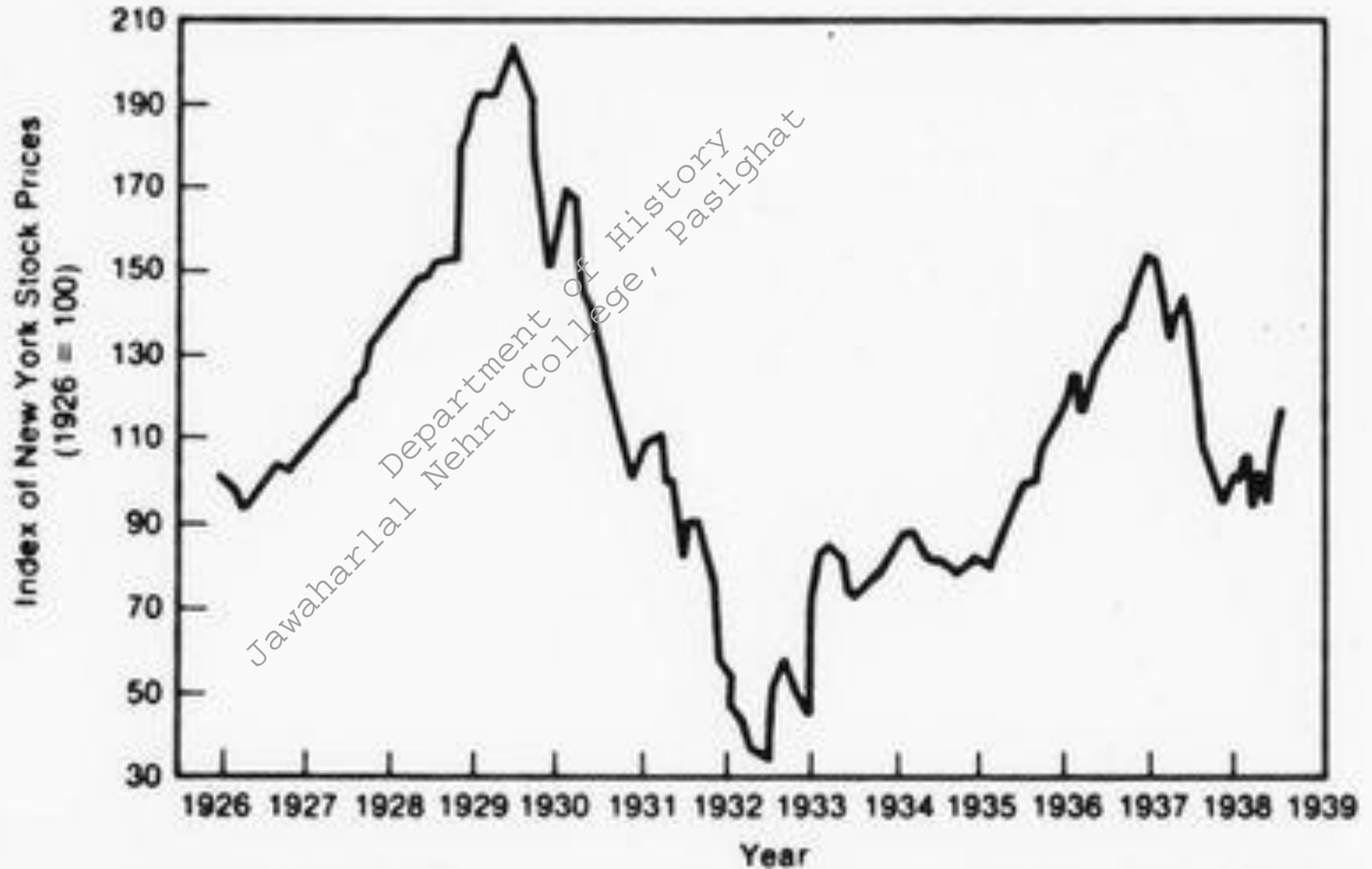
# Speculative Manias



# The Market Crashes

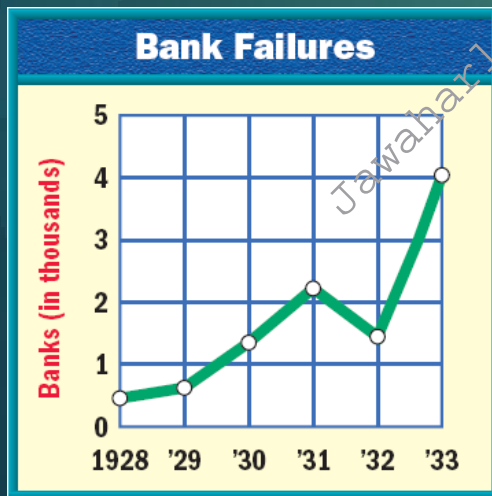
- ▶ Thursday, October 24, 1929
  - ▶ Stock values plunged by \$11 billion
  - ▶ *"the fundamental business of the country . . . is on a sound and prosperous basis."*
- ▶ Black Tuesday, October 29, 1929
  - ▶ Trading volume reached a record high of 16,410,030 shares; loss of 12 percent in one day
  - ▶ By 1932, stock exchanges lost \$179 billion in value

# The Market Crashes



# The Market Crashes

- ▶ By 1933:
  - ▶ Unemployment reached 25% of workforce (was 3.2% in 1929)
  - ▶ Industrial production declined by 50%
  - ▶ Investment in U.S. economy fell from \$16 billion to \$340 million; a decrease of 98%

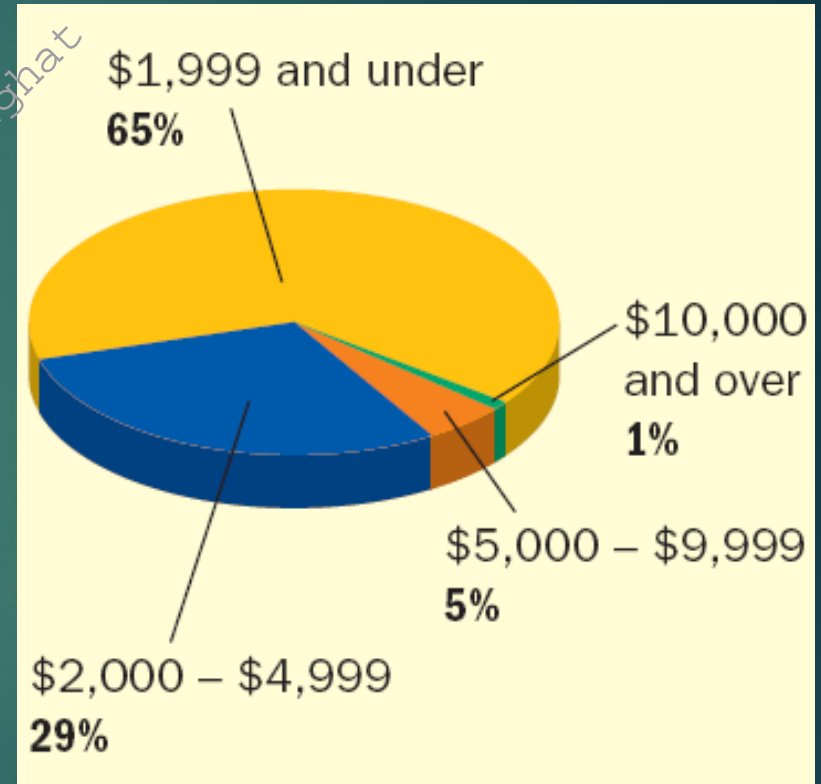


# Why It Happened

- ▶ “Prosperity’s decade”:
  - ▶ Employment was high (96.8%) and inflation was virtually nonexistent
  - ▶ Industrial production had risen 30 percent between 1919 and 1929
  - ▶ Per capita income had risen from \$526 to \$681
  - ▶ United States accounted for nearly half the world’s industrial output
  - ▶ “Seeds” of depression were present in “boom” of the 1920s

# Why It Happened

- ▶ Prosperity as an illusion:
  - ▶ More than 60% of families earned less than \$2000/year (\$2500 considered necessary)
  - ▶ 40% earned less than \$1300 annually
  - ▶ Wages stagnated or fell in mining, transportation, and manufacturing due to electrification and more efficient management



# Why It Happened

- ▶ Prosperity bypassed some Americans entirely:
  - ▶ 71% of Native Americans earned less than \$200 a year
  - ▶ During each year of the 1920s, 25,000 Mexican Americans migrated to the U.S.
  - ▶ Mexican Americans lived in conditions of extreme poverty; virtually no meat or fresh vegetables in their diet

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# Why It Happened

- ▶ Farmers had been in depression since 1921
- ▶ Following World War I and end of government price supports, farm prices plummeted
- ▶ European agriculture revived and grain from Argentina and Australia entered world market
- ▶ In 1910, a farmer's income was 40% of a city worker's; by 1930, it had dropped to 30%
- ▶ Millions of farmers defaulted on debts, placing tremendous pressure on banking system
- ▶ Between 1920 and 1929, more than 5,000 banks failed (17% of all banks)

# Why It Happened

- ▶ Because of banking crisis, thousands of small businesses failed to secure loans; thousands more went bankrupt after the stock market crash
- ▶ Heavy burden of consumer debt also weakened the economy; consumers cut back on discretionary spending in late 1920s
- ▶ This led to reductions in production and subsequent worker layoffs; unemployed workers spent less, and the cycle continued

# Why It Happened

- ▶ Maldistribution of wealth:
  - ▶ Between 1919 and 1929, share of income received by wealthiest 1 percent rose from 12 percent to 19 percent
  - ▶ Share of income received by wealthiest 5 percent rose from 24 percent to 34 percent
  - ▶ Poorest 93 percent nonfarm population saw its disposable income fall in 1920s
  - ▶ Rich spent a high proportion of income on luxuries and saved disproportionately large share of their income – insufficient demand to keep employment and investment at a high level

# Why It Happened

- ▶ Business investment fell before 1929; housing fell to less than half of 1924 levels (National Origins Act of 1924)
- ▶ Soaring inventories led businesses to reduce investment and production in late 1920s; surplus funds went into stock market speculation
- ▶ Federal Reserve also weakened economy; slow the growth of money supply to curb stock market speculation and then allowed money supply to fall dramatically after crash – “liquidity crisis”

# Why It Happened

- ▶ Consumers were unable to repay loans and businesses did not have capital to finance operations
- ▶ Federal Reserve should have cut interest rates and expanded money supply; instead money supply declined by 27 percent between 1929 and 1933
- ▶ Republican tariff policies damaged economy by depressing foreign trade:
  - ▶ Fordney-McCumber Tariff of 1922
  - ▶ Hawley-Smoot Tariff of 1930
  - ▶ Depressed foreign economies, increased foreign tariffs and international trade plummeted 30% by 1933

# Why It Happened

- ▶ Depression did not strike instantly – infected country gradually like a slow cancer
- ▶ Worst economic catastrophe in American history
- ▶ Hit urban and rural areas, blue- and white-collar workers
- ▶ Causes homelessness, starvation, and poverty
- ▶ Relief burden fell on state/municipal governments and private charities due to lack of federal system of unemployment insurance
- ▶ These groups lacked the resources to alleviate massive suffering; poor Southerners were especially hard hit

# *Only Yesterday* (1931)



# Woody Guthrie





# Global Perspective

- ▶ Military dictatorships
  - ▶ Central & South America
- ▶ Fascism and Militarism
  - ▶ Germany, Italy, and Japan
- ▶ Totalitarian communism
  - ▶ Soviet Union
- ▶ Welfare capitalism
  - ▶ Canada, Great Britain, and France
- ▶ The economic decline brought on by the depression was steeper and more protracted in the United States than in other industrialized nations

# Global Perspective

- ▶ The Great Depression transformed the American political and economic landscape:
  - ★ Produced a major political realignment, creating a coalition of big city ethnicities, African Americans, and Southern Democrats, committed to an interventionist government
  - ★ Strengthened the federal presence in American life; national old-age pensions, unemployment compensation, aid to dependent children, public housing, federally subsidized school lunches, insured bank deposits, minimum wage, and stock market regulation

# Global Perspective

- ★ Altered labor relations, producing a revived labor movement and a national labor policy protective of collective bargaining
- ★ Transformed the farm economy by introducing federal price supports and rural electrification
- ★ Produced a fundamental shift in public attitudes – led Americans to view the federal government as their agency of action and reform and the ultimate protector of the public's well-being

# The Human Toll

- ▶ Breadlines, soup kitchens, tin-can shanties and "Hoovervilles"
- ▶ "Arkies" and "Okies"



# The Human Toll

- ▶ Unemployment:
  - ▶ 1929 – 3 million
  - ▶ 1930 – 4 million
  - ▶ 1931 – 8 million
  - ▶ 1932 – 12.5 million
- ▶ 90% of companies cut worker pay; 75% of all workers were on part-time schedules
- ▶ By 1933, the average family income fell 40%; multiple families crowded in one-room shacks, caves, and even sewer pipes!

# The Human Toll

- ▶ Vagrancy shot up as families were evicted
- ▶ Many families planted gardens, canned food, bought old bread and used cardboard and cotton for shoe soles
- ▶ Many did without milk or meat; neglected medical and dental care
- ▶ *"Nobody is actually starving. The hoboes are better fed than they ever have been."*
- ▶ In 1931, 20 known cases of starvation in NYC; 110 in 1934

# The Human Toll

- ▶ Couples delayed marriage and birthrate declined below the replacement level for first time in American history
- ▶ Divorce rate also fell; rates of desertion soared
  - ▶ By 1940, 1.5 million married women lived apart from their husbands; 200,000 vagrant children wandered the country
- ▶ Depression inflicted heavy psychological toll on jobless men; many turned to alcohol or became abusive

# The Human Toll

- ▶ Women saw their status rise during the Depression; married women entered the workforce in large numbers
- ▶ Depression also drew some families closer together; devised strategies for survival
- ▶ Drew comfort from religion; increasingly looked to the federal government for help



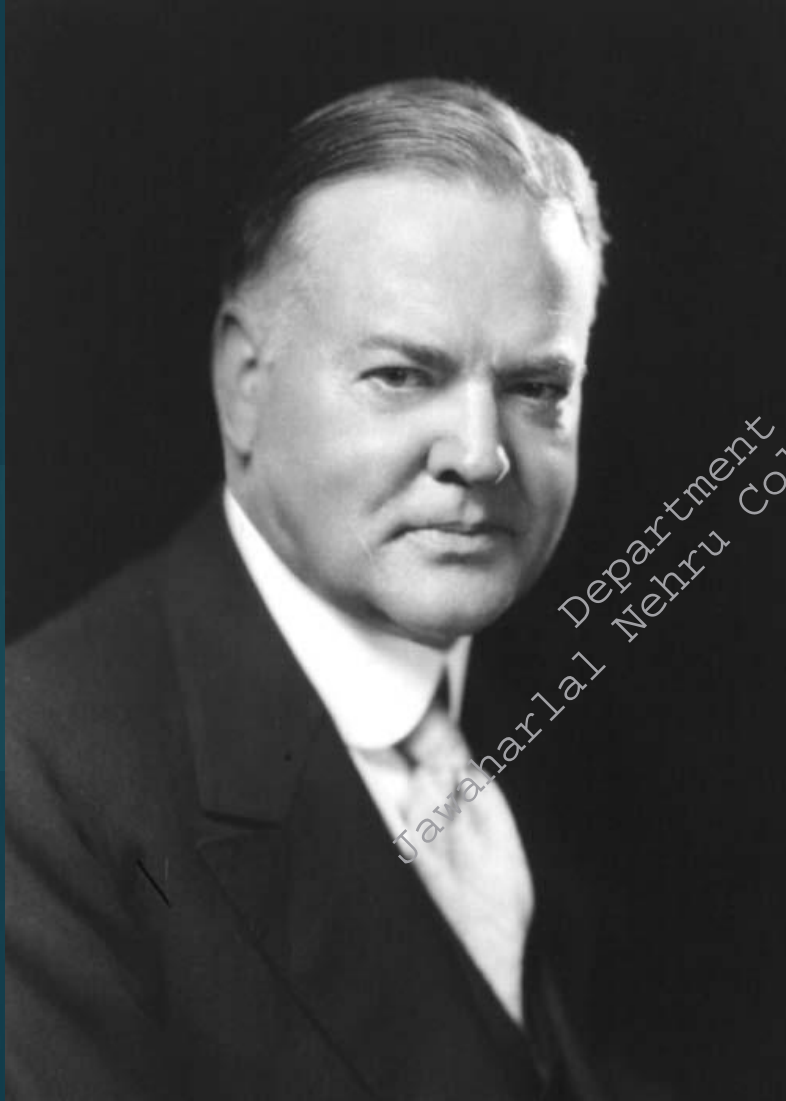
# The Dispossessed

- ▶ Minorities (African Americans and Mexican Americans) suffered the most
- ▶ 70% of Charleston's black population and 75% of Memphis' black population was unemployed
- ▶ In the South, living conditions for black families were deplorable; income averaged less than a dollar a day
- ▶ In the North, conditions were also distressed
- ▶ Mexican Americans faced opposition from labor unions; "repatriation" sent more than 400,000 to Mexico

# Private and Public Charity

- ▶ Great Depression overwhelmed private charities and local governments
- ▶ In 1932, total public and private relief expenditures amounted to only \$317 million - \$26 per each unemployed American

# President Hoover Responds



- ▶ Most political and economic leaders viewed recessions as natural parts of the business cycle
- ▶ Government intervention was unnecessary and unwise
- ▶ Hoover saw the Great Crash as a temporary slump in a fundamentally healthy economy, but believed the president should try to facilitate economic recovery.

# President Hoover Responds

- ▶ First, Hoover resorted to jawboning
  - ▶ Summoned business and labor leaders and obtained promises; volunteerism
- ▶ Second, he tried cheerleading; speeches assured Americans that economy was sound and recovery was around the corner
  - ▶ "Hoovervilles," "Hoover blankets," "Hoover flags"
  - ▶ Hoover was tormented by poor, but could not sanction large-scale federal public works programs (private sector, balanced budget, individual character – "rugged individualism")

# President Hoover Responds

- ▶ Hawley-Smoot Tariff of 1930
- ▶ Boulder Dam (1931-1936)
- ▶ 1932 Revenue Act
- ▶ Reconstruction Finance Corporation (RFC), 1932
- ▶ Federal Home Loan Bank System, 1932
- ▶ Emergency Relief Organization

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# First Hundred Days

- ▶ *"The only thing we have to fear, is fear itself"*
- ▶ Launched First New Deal immediately
- ▶ 3 "Rs" of New Deal: Relief, Recovery, and Reform
- ▶ 20<sup>th</sup> Amendment (1933)
- ▶ March 9 – Emergency Banking Relief Act
- ▶ March 12 – first "fireside chat"
- ▶ *"Capitalism was saved in eight days."*
- ▶ March 22 – Beer-Wine Revenue Act (21<sup>st</sup> Amendment)
- ▶ May 12 – Federal Emergency Relief Act

# First Hundred Days

- ▶ June 13 – Homeowners Loan Act
- ▶ June 16 – Glass-Steagall Act – Federal Deposit Insurance Corporation (FDIC)
- ▶ Took the nation off the gold standard, devalued the dollar, ordered Federal Reserve to ease credit
- ▶ Securities and Exchange Commission (SEC), 1934
- ▶ Other important laws in First Hundred Days included Agricultural Adjustment Act (AAA), National Industrial Recovery Act (NIRA), and Tennessee Valley Authority Act (TVA)

# New Dealers

- ▶ New breed of government officials: Ivy League intellectuals and social workers – “brain trust”
- ▶ Strongly influenced by Progressive reformers; but much more pragmatic
  - ▶ Government had the duty to intervene in all aspects of the economy to improve quality of American life
  - ▶ Prophylactics in World War I
- ▶ Rejected laissez-faire orthodoxy



# New Dealers

- ▶ Disagreed on best way to end the depression:
  - ▶ “Trustbusters” led by Thurman Arnold called for vigorous enforcement of antitrust laws to break up concentrated business power
  - ▶ “Associationalists” wanted to encourage cooperation between business, labor, and government by establishing associations and codes
  - ▶ Economic planners led by Rexford Tugwell, Adolph Berle, and Gardiner Means, wanted to create a system of centralized national planning

# Farmers' Plight

- ▶ Farmers were hardest hit by depression; farm income fell two-thirds in just three years
- ▶ Overproduction was still the culprit; increased worldwide production and lesser demand
- ▶ Farm tenancy rose; 40% of all farmers did not own their own land – cycle of debt
- ▶ Nature turned against farmers: boll weevil in the South and Dust Bowl in the West
  - ▶ Overgrazing by cattle, increased tractor use, and drought combined to create powerful dust storms
  - ▶ By 1939, one million Dust Bowl refugees left the plains to find work in California ("Arkies" and "Okies")

# Farmers' Plight

- ▶ As late as 1935, 6 million of America's 6.8 million farms had no electricity
- ▶ Tennessee Valley Authority (TVA), 1933
- ▶ Rural Electrification Administration (REA), 1935
- ▶ Soil Conservation Service, 1936
- ▶ Farm Credit Administration, 1933
- ▶ Commodity Credit Corporation, 1933

# Farmers' Plight

- ▶ Agricultural Adjustment Act (AAA), 1933
  - ▶ Led by Secretary of Agriculture Henry Wallace
  - ▶ Would raise farm prices by reducing supply; participation was voluntary, but farmers would be paid to not grow crops
  - ▶ In 1933, farmers ordered to plow under the crops; 10 million acres of cotton destroyed and 6 million pigs were slaughtered
  - ▶ Mixed record: raised farm income but did little for sharecroppers and tenant farmers – forced at least 3 million more small farmers off the land
  - ▶ Established the precedent for a system of farm price supports, subsidies, and surplus purchases

# Industry and Labor

- ▶ National Industrial Recovery Act (NIRA), 1933
  - ▶ National Recovery Administration (NRA)
  - ▶ Representatives of business, labor, and government would set prices, production levels, minimum wages, and maximum hours within each industry; supported labor unions; General Hugh Johnson
  - ▶ Over 500 industries, covering 22 million workers signed codes
  - ▶ Success was short lived; NRA Boards were dominated by leaders of big business
  - ▶ Abolished child labor and established federal regulation of minimum wages and maximum hours; labor membership expanded

# Jobs Programs

- ▶ Public Works Administration (PWA), 1933
  - ▶ “pump primer”: providing people with money to spend on industrial goods
  - ▶ Led by Harold Ickes; spent \$6 billion
- ▶ Civilian Conservation Corps (CCC), 1933
  - ▶ Employed 300,000 jobless young men (18-25) in nation’s parks and forests
- ▶ Civil Works Administration (CWA), 1933
  - ▶ Led by Harry Hopkins; 4 million men
  - ▶ Built 250,000 miles of road, 40,000 schools, 150,000 privies, and 3,700 playgrounds

# Jobs Programs

- ▶ CWA scrapped in 1934 to avoid budget deficit
- ▶ 1934 Labor Day strike; 500,000 garment workers
- ▶ Democrats won more seats in Congress in 1934 midterm elections
- ▶ Roosevelt abandoned his hopes for balanced budget, lost faith in government planning and alliances with business – only government spending remained an option

# Jobs Programs

- ▶ Works Progress Administration (WPA), 1935
  - ▶ Employed 3.5 million workers at a "security wage"; led by Harry Hopkins
  - ▶ Constructed or improved 2,500 hospitals, 5,900 schools, 1,000 airport fields, and 13,000 playgrounds
  - ▶ By 1941, it had pumped \$11 billion into economy
- ▶ Farm Security Administration (FSA)
- ▶ Federal Writer's Project (FWP)
- ▶ Federal Art Project (FAP)
- ▶ Federal Theater Project (FTP)



# Jobs Programs

- WPA established the precedent of federal support to the arts and the humanities
- WPA also marked the zenith of Roosevelt's influence over Congress

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# Roosevelt's Critics



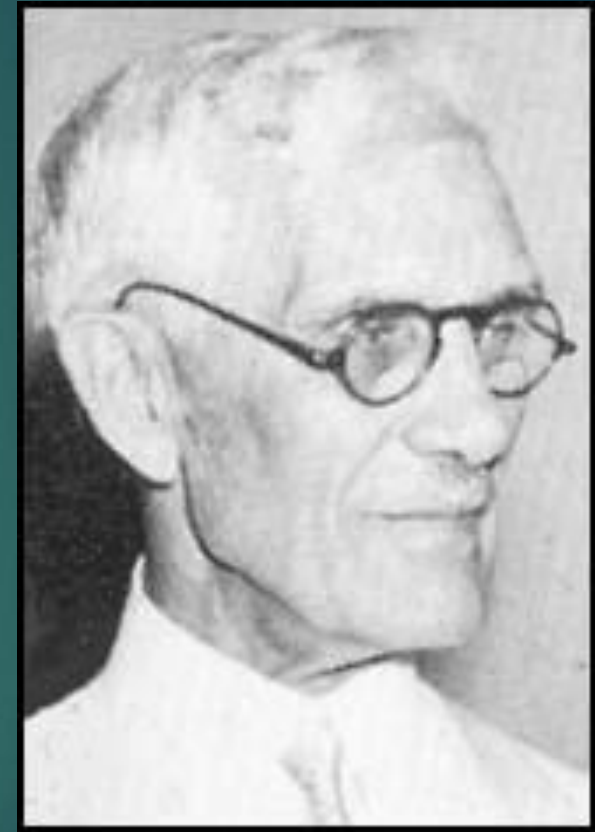
Huey Long

“Share Our Wealth”



Father Charles Coughlin

National Union for  
Social Justice



Dr. Francis Townsend

“Townsend Plan”

# Labor

- ▶ Launched Second New Deal and “Second Hundred Days” in Summer 1935
- ▶ Workers in major industries were not unionized
- ▶ Wagner Act (National Labor Relations Act) of 1935
  - ▶ Government guaranteed the right of employees to form unions and bargain collectively
  - ▶ Set up National Labor Relations Board (NLRB) which had the power to prohibit unfair labor practices by employers
- ▶ Fair Labor Standards Act of 1938

# Labor

- ▶ Dispute broke out within labor's ranks: Should labor focus its efforts on unionizing skilled workers; or go after all workers in industry regardless of skill?
- ▶ AFL focused on skilled labor
- ▶ In 1935, John L. Lewis (United Mine Workers) helped organized Committee for Industrial Organizations within AFL
- ▶ In 1938, CIO was expelled and formed Congress of Industrial Organizations

# Labor

- ▶ 1937 United Auto Workers "Sit-down" Strike in Flint, Michigan
- ▶ 1937, U.S. Steel accepted unionization
- ▶ Memorial Day Massacre, 1937 in Chicago at Republic Steel mill – part of "Little Steel"
- ▶ 1941, NLRB forced "Little Steel" to recognize unions and reinstate all workers fired for union activity

# Social Security

- ▶ Social Security Act, 1935
  - ▶ Social Security Administration (SSA)
  - ▶ Provided aid to the elderly, disabled, dependent children without wage-earning parents
  - ▶ Established first federally sponsored system of unemployment insurance
  - ▶ Based on mandatory payroll deductions
  - ▶ Conservatives argued that the SSA placed America on the "road to Socialism"
  - ▶ Reformers wanted "cradle to grave" protection

# Social Security

- ▶ New system offered pitifully small payments
- ▶ Left huge groups of workers uncovered: migrant workers, civil servants, domestic servants, merchant seamen, and day laborers
- ▶ Budget came from a regressive tax policy
- ▶ Did not provide health insurance
- ★ Committed government to a social welfare role and greatly expanded the public's sense of entitlement from government

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# Second New Deal

- ▶ Public Utility Holding Company Act, 1935
- ▶ Second New Deal also included more banking reform and a new tax proposal; 2<sup>nd</sup> AAA
- ▶ Second New Deal sought to make capitalism more humane; majority of Americans did not want dramatic changes and Roosevelt never achieved a social revolution
- ▶ There were no attacks on private property; wealthy retained their privileges and wealth – the rich were still rich and poor were still poor



# Second New Deal

- ▶ Wealthy viewed Roosevelt as a traitor to his class; William Randolph Hearst ordered his newspapers to substitute "Raw Deal" for "New Deal"
- ▶ Conservatives were appalled by deficit spending and expansion of the federal bureaucracy; feared attacks on states' rights and individual liberties as well as higher taxes on the wealthy

# Women

- ▶ Government jobs in Washington opened to women because of New Deal programs (prior experience with social work and voluntary associations)
- ▶ Frances Perkins, secretary of labor and first female cabinet member
- ▶ Molly Dewson, director of the Women's Division of the Democratic Committee
- ▶ By 1939, women held 1/3 of all positions in independent agencies and 1/5 of jobs in executive departments in Washington

# African Americans

- ▶ In 1936, 75 percent of black voters supported the Democrats; one of the most dramatic voter shifts in American history
- ▶ Still, Roosevelt stayed away from equal rights because he needed support of Southern Democrats to pass New Deal legislation; he refused to support antilynching bill and a bill to abolish the poll tax
- ▶ Eleanor Roosevelt did take a public stand in support of civil rights

# African Americans

- ▶ Most New Deal agencies discriminated against blacks:
  - ▶ NRA authorized separate and lower pay scales for African Americans and gave hiring preference to whites
  - ▶ FHA refused to guarantee mortgages for blacks who tried to buy homes in white neighborhoods
  - ▶ CCC maintained segregated camps
  - ▶ Social Security Act excluded job categories traditionally filled by blacks
  - ▶ AAA forced more than 100,000 off the land

# African Americans

- ▶ Roosevelt named Mary McLeod Bethune to the advisory committee of the National Youth Administration (NYA)
- ▶ WPA was color-blind under leadership of Harry Hopkins
- ▶ Harold Ickes (PWA) was a strong supporter of civil rights
- ▶ Most blacks appointed to New Deal posts, served in token positions as advisors on black affairs; "Black Cabinet"

# Mexican Americans

- ▶ AAA forced many Mexican American migrant workers to lose their jobs; increased job competition from unemployed whites
- ▶ Many did not qualify for relief assistance and were not eligible for benefits under workman's compensation, Social Security or NLRB
- ▶ FSA established camps for migrant workers in California
- ▶ CCC and WPA hired Mexican Americans

# Native Americans

- ▶ “Indian New Deal” ended almost 150 years of federal government oppression
- ▶ John Collier appointed Commissioner of Indian Affairs
  - ▶ Indian Emergency Conservation Program (IECP) employed more than 85,000 Native Americans; made certain PWA, WPA, CCC, and NYA hired Native Americans
  - ▶ Indian Reorganization Act, 1934: terminated Dawes Act, provided funds for land purchases, recognized Native American constitutions, repealed prohibitions on Native American culture
  - ▶ Additional funds were provided for Native American schools, hospitals, and social welfare agencies

# Court Packing

- ▶ Roosevelt supporters introduced over a hundred bills in Congress to curb judiciary's power
- ▶ After landslide reelection in 1936, Roosevelt proposed his "court-packing scheme":
  - ▶ Add one new member to the Supreme Court for every judge who had reached the age of 70 without retiring (there were six in 1936)
  - ▶ Also offered a very generous pension program for retiring federal judges



# Court Packing

- ▶ Conservatives and liberal denounced the scheme and Roosevelt for attacking the separation of powers
- ▶ Court ended the crisis by shifting ground
- ▶ Roosevelt still wasted political strength on "court packing" scheme; pension plan was passed
- ▶ By 1941, Roosevelt had named five new justices including Hugo Black; "Roosevelt Court" significantly expanded government's role in the economy and in civil liberties

# Depression of 1937

- ▶ “Roosevelt Recession” – Industrial production fell by 40 percent, unemployment rose by 4 million and stock prices plunged 48 percent
- ▶ Secretary of Treasury Henry Morgenthau had convinced Roosevelt to cut federal spending in an effort to balance the budget and restore business confidence; reassured by good economic news of 1936
- ▶ By 1938, reform spirit was gone in Congress; conservative southern Democrats and northern Republicans blocked all efforts to expand the New Deal

# Depression of 1937

- ▶ 1938 midterm congressional elections and Roosevelt's attempted purge intensified conservative-liberal split in Democratic Party
- ▶ Created a stalemate; Roosevelt could not pass any new measures and opponents could not dismantle his existing programs
- ▶ New Deal ended by 1939, but many reforms became permanent features of American politics

# Popular Culture in the 1930s

- ▶ Many contradictions in 1930s popular culture:
  - ▶ Traditionalism vs. modernist experimentation
  - ▶ Sentimentality vs. "hard-boiled" toughness
  - ▶ Longings for simpler past vs. fantastic dreams for future
  - ▶ Many Americans hungered for heroes

# ★ Impact

- ▶ From an economic perspective, the New Deal barely made a dent in the Great Depression
- ▶ New Deal programs suffered from poor planning and moved with considerable caution
- ▶ Government expenditures stayed below \$10 billion a year
- ▶ World War II snapped America out of the Depression; unemployment disappeared virtually overnight

# ★ Impact

- ▶ New Deal did blunt the worst effects of the Great Depression
- ▶ Through economic reforms and public works projects, Roosevelt managed to preserve the public's faith in capitalism and in democratic government by reaching out to neglected groups
  - ▶ Social Security
  - ▶ NIRA and Wagner Act
  - ▶ FLSA

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# ★ Impact

- ▶ New Deal encouraged Americans to look to the White House for strong executive leadership; growth in presidential power
- ▶ New Deal coalition – labor, African Americans, urban ethnics, intellectuals, and southern whites – shaped American politics for several decades
- ▶ Above all, New Deal made federal government responsible for safeguarding the nation's economic health