

The Great Depression



We in America today are nearer to the final triumph over poverty than ever before in the history of any land. The poorhouse is vanishing from among us. Herbert Hoover, 1928

...[A] host of unemployed citizens face the grim problem of existence, and an equally great number toil with little return. Only a foolish optimist can deny the dark realities of the moment. Franklin Roosevelt, March 1933

I. Causes of the Great Depression

- A. Massive business inventories (up 300% from 1928 to 1929)
- B. Lack of diversification in American economy--prosperity of 1920s largely a result of expansion of construction and automobile industries
- C. Poor distribution of purchasing power among consumers
 - 1. Many farmers and factory workers were unable to purchase cars and houses and thus maintain economic growth
 - 2. Farm income declined 66% from 1920 to 1929
 - 3. By 1929 the top 10% of the nation's population received 40% of the nation's disposable income
- D. Huge credit problems
 - 1. Steady stream of bank failures in late 1920s as customers (many of them farmers) were unable to pay mortgages

2. Many bankers had small reserves as they attempted to capitalize on stock market growth.

3. Low margins encouraged speculative investment on the part of banks, corporations, and individual investors

E. Decline in demand for American goods in international trade

1. Some European industry and agriculture gradually recovered from World War I

2. Some nations, particularly Germany, were so beset by financial crises and inflation that they could not afford to purchase American goods

3. Unable to pay wartime debts, many European nations borrowed from American banks, further increasing indebtedness

4. High American protective tariffs discouraged trade

II. Stock Market Crash, 1929

A. By October 1929, margin buying had reached \$8.5 billion in loans to stock purchasers

B. Stock prices began to fall in September 1929. On October 24 (Black Thursday) and October 29 (Black Tuesday), prices fell drastically as sellers panicked. By December \$40 billion in stock value had been lost.

C. Hoover and business leaders attempted to calm Americans by assuring them that the country's economy was fundamentally sound

D. J.P. Morgan and other bankers bought \$20 million of U.S. Steel to try to restore confidence

E. Economic downturn accelerated by market crash

1. Between 1929 and 1933, 100,000 businesses failed

2. Corporate profits fell from \$10 billion to \$1 billion

3. Between 1929 and 1933, over 6000 banks failed with over 9 million savings accounts lost (\$2.5 billion)

4. By 1933, 13 million workers were unemployed (25% of the work force) and many were underemployed

5. Malnutrition increased, as did tuberculosis, typhoid and dysentery.

- a) In 1932 95 people died in New York City from starvation
- b) Many turned to soup kitchens and breadlines for food

6. Large numbers of homeless workers roamed the U.S., particularly the Southwest, seeking work

III. Hoover's Response

- A. Rejected direct relief (the dole) as undermining to character and rugged individualism
- B. Urged Americans to turn to community and church resources (Salvation Army, Community Chest, Red Cross) to meet needs of the poor
- C. Gradually used federal agencies to address issues
 - 1. Met with business and labor leaders to reduce layoffs and strikes
 - 2. Financed federal work projects, such as massive dams in the West (Boulder, Hoover, and Grand Coulee)
 - 3. Set up RFC (Reconstruction Finance Corporation) in 1932 to make loans to stimulate economy in a "trickle-down" manner
 - 4. Raised tariffs 33% by signing the Hawley-Smoot Tariff in attempt to keep foreign goods off the U.S. market.

IV. Election of 1932

- A. Hoover refused to accept any responsibility for the economic downturn ("No president must ever admit he has been wrong") and was booed and jeered when he made his few campaign appearances outside Washington
 - 1. Campaign slogans: "The Worst is Past," "Prosperity is Just Around the Corner"
 - 2. Accused FDR of seeking the destruction of capitalism
- B. Franklin Roosevelt preached a brand of cautious liberalism, rejecting Hoover's conservatism and the radical approach of socialists and communists.
 - 1. Offered a New Deal for the "forgotten man" and promised a balanced budget along with economic reforms
 - 2. Campaign slogan: "Happy Days are Here Again" signalled Democratic optimism in face of economic problems
- C. Though party platforms were remarkably similar, Democrats supported repeal of Prohibition and an increase in federal relief

D. FDR won 57% of the popular vote and Democrats took control of both the House and Senate

E. Following long lame-duck period for Hoover and Republicans (November 1932-March 1933), FDR launched Hundred Days of legislative and administrative changes

1. Relief
2. Recovery
3. Reform