CRASH, DEPRESSION, AND NEW DEAL

- 1920's had been a period of good economic times
- Tues. Oct. 29th, 1929 - NYC Stock market crashed, causing a depression that would last until 1942
The stock market:

- The public invests in cos. by purchasing stocks; in return for this they expect a profit.
- Because of booming 1920's economy, $ were plentiful, so banks were quick to make loans to investors.
- Also, investors only had to pay for 10% of the stock's actual value at time of purchase.
  - This was known as **BUYING ON MARGIN**, and the balance was paid at a later date.
- This encouraged **stock speculation** - people would buy and sell stocks quickly to make a quick buck.

- Because of all this buying & selling, stock value increased (Ex: G.E stock $130 → $396/share).

- This quick turnover didn't aid cos. → they needed long term investments so they could pay bills (stock value was like an illusion).

- Unscrupulous traders would buy and sell shares intentionally to inflate a given co.'s stock value.

- All of this gave a false sense of security/confidence in the American market.
beginning in Oct. 1929, investors’ confidence dropped, leading to a market collapse
all tried to sell at once and bottom fell out of market = panic selling… (many bankruptcies as banks called in loans)
only a tiny minority of people traded on the stock exchange, but they possessed vast wealth, and the crash had a ripple effect on the economy
For the poor......

mass consumption was already low (poor could afford to buy little)

unemployment rose → no gov't assistance at first

since people could not buy, productivity was cut back = further unemp.

so w/ additional unemployment → purchasing power declined again → reduced productivity yet again (= ECONOMIC CYCLE)
PRODUCTIVITY AND UNEMPLOYMENT

- In 1920's U.S. Eco. was based on the productivity – purchasing power - employment cycle.
- For many goods to be produced, purchasing demand had to be there: this resulted in high employment and a healthy economy.
- Between 1924-27, U.S. productive capacity doubled but it was because of technological innovation, specifically electricity and mechanical advances made for better production, but no new jobs were added to the economy.
- So more consumer goods were available, but there weren't necessarily more people to buy them (OVERPRODUCTION).
- a 2nd major problem: uneven dist. of wealth
- 0.1% at top owned as much as bottom 42% of American families (42% below poverty line)
- of the 58% above the poverty line, most fell into the middle class category - they were not wealthy; they had jobs b/c of the industrialization & consumerization of the American market place
- this middle class depended on their salaries and when productivity declined they lost their jobs
- and b/c of low savings, they had to cut back on their purchases
- this decline in consumption among the middle class ruined the whole country
Pres. Hoover’s responses...

- He didn't believe that the gov't should play an active role in the economy.
- He persuaded bankers/business to follow his policy of VOLUNTARY NON-COERCIVE COOPERATION where he gave tax breaks in return for private sector economic investment.
- Hoover also organized some private relief agencies for the unemployed.
- He worked out a system with European powers that owed U.S. money as a result of WWI debts = HOOVER MORATORIUM - put a temporary stop to war debt & reparations payments.
- Euro. countries were to purchase American goods instead to stimulate American economy.
in early 1931 these measures appeared successful, but then......the TARIFF WARS
Democrats in Congress passed a high tariff (SMOOT HAWLEY) to protect U.S. industry (hoped to stimulate purchasing of U.S. goods)
this turned out to be a fatal error...
Congress did not understand that the world had become a GLOBAL ECONOMY
in retaliation other countries passed high tariffs and no foreign markets purchased American goods, so U.S. productivity decreased again
also in 1931, the Soviets flooded the world market with cheap wheat (1/2 U.S. price) in an attempt to get money to pay back Austrian banks (but price was too low and they couldn't)
this resulted in the BANKERS' PANIC
Austrian banks borrowed from German banks and appealed to the BANK OF INT'L SETTLEMENT (Fr veto)
Austrian banks and loaning German banks therefore were forced into bankruptcy
and b/c German banks had borrowed from Americans, U.S. banks began to go bankrupt, wiping out life savings of thousands of Americans
Hoover was increasingly unpopular, but he continued to try... he persuaded Congress to establish the RECONSTRUCTION FINANCE CORPORATION had power to make emergency loans to banks but it was too little too late... and Hoover wouldn't involve himself in any programs of direct gov'tal aid to individuals - didn't want to erode Americans sense of "RUGGED INDIVIDUALISM"
- people were frustrated - isolated protest movements
- EX: Dairy farmers frustrated w/low price of milk refuse to sell (dump it)
- EX: WW1 veterans (pensions discontinued by congress) march on Washington = BONUS MARCH (by BONUS ARMY)
- they reached Washington by 1931, set up shantytowns = HOOVERVILLES (food scraps = HOOVER-MEALS, hitchhiking journeys = HOOVER RIDES)
- after one year they were forcibly dispersed by the Army (MacArthur/Eisenhower)
1932 ELECTION

1 out of 4 was unemployed...

nat'l income was 50% of what it had been in 1929

Repubs. nominated Hoover → no hope

winner by a landslide = FRANKLIN DELANO ROOSEVELT (Dem - N.Y. governor)
this was the name FDR gave to his new program to fight the Depression
it was a *revolution* in American society - changed completely the way the gov't functions
the first phase of the New Deal dealt exclusively w/ eco. reform - unlike Hoover, FDR believed gov't legislation/involvement was crucial to stimulate the economy
step 1 - dealt w/ the banking crisis - **BANKING HOLIDAY** - banks shut down and subject to gov't inspection, allowed to open when "healthy" - people's confidence returned → they redeposited, allowing banks to invest in the economy
step 2 - stock market reform: Security Exchange Commission est. to police the NYSE (first chmn. was Joseph P. Kennedy) - practice of buying on margin was regulated

step 3 - to put more $ in circulation, FDR went off the GOLD STANDARD (gov't could print more $ than Fort Knox gold reserves would allow) - w/ more $ in circulation, wages and prices increased (= inflation), causing dollar value to lower - gave gov't spending power (Keynesian economics)
SPECIFIC PIECES OF LEGISLATION (direct gov't intervention in the eco.)(called "Alphabet Soup")

- NATIONAL INDUSTRIAL RECOVERY ACT (NIRA) and NATIONAL RECOVERY ADMIN (NRA) were established to end animosity b/n labour and business → all was redirected to industrial growth → fair labour codes established - wages, no child labour, shortened work hours - business people challenged the NRA, claiming it was communist

- they formed the LIBERTY LEAGUE - at LL's urging, the Supreme Ct. overturned the NIRA & NRA, claiming that fed. gov't was exceeding its authority (by interfering in state jurisdiction)
TENNESSEE VALLEY AUTHORITY (TVA) - used to promote hydroelectric power, control flooding - lower rates → private industry, manuf. fertilizer → fed. gov't. took ownership (*nationalization v. privatization*)
- *Kansas City from Politics, Farming, & the Law*
- *Thomas Hart Benton, 1936*
The Annual Move
by Otis Dozier, 1936
Construction of the Dam
by William Gropper
AGRUCULTURAL ADJUSTMENT ACT (AAA) - passed in 1933 to aid farmers - its objective was to restore farmers' purchasing power and to restore the family farm - AAA had farmers cut back on crop production by paying them equivalent SUBSIDIES (paid not to produce) - bad side:

1) food production down when millions were starving
2) Black sharecroppers were hurt: white landowners paid not to farm so they got rid of Black tenant formers

in 1935, AAA was declared unconstitutional by courts (too much control over individual states), so it was revised and introduced as new legislation

EX: Food Stamp Act of 1939 - gave away surplus food to poor, also guaranteed (small) farmers a market
UNEMPLOYMENT - still a major problem

FDR like Hoover was wary of gov't handouts - he wanted people to earn their keep so gov't agencies were created - temporarily - to address the unemp. problem.

CIVILIAN CONSERVATION CORPS (CCC) - in 1933 - set to establish work for young men (18-25) in areas of reforestation, soil conservation, flood control, road construction - also took them out of urban labour markets - but Blacks not permitted to enrol.
Other agencies had specific mandates too... NATIONAL YOUTH ADMIN. (NYA) - created jobs for young in urban areas

FED. EMERGENCY RELIEF ACT (FERA) - aimed at older workers; these and other similar agencies worked well, but unemployment was still at 6 million in 1941 (solution for this would be the industrial boom of WW2)

NEW DEAL - SOCIAL REFORM ASPECT - after 1935, with immediate economic relief and reform addressed, New Deal turned to Social Welfare - more legislation...

National Labour Relations Act (aka Wagner Act) - it legitimized unions and labour tactics such as collective bargaining and collective action (strikes, etc...) - it outlawed BLACKLISTS and other anti-union practices
Social Security Act (1935)- feared by opponents as "creeping socialism" - this act typifies the WELFARE STATE - unemployment insurance, old age pensions
Problem: it took some $ out of circulation (payroll deductions) at a time when purchasing power was already low - also, it only covered the unemployed
1936 - "Soak The Rich" tax
- ELECTION OF 1936 - FDR won easily (v Repub. Alf Landon - Kansas governor)
- this victory gave FDR a mandate to continue his New Deal policies
- first objective: to reorganize the Supreme Court - they disallowed some New Deal legislation
- FDR wants # of judges changed from 9 → 15 (to "pack the court") - great opposition, so FDR w/drew this proposal
- but judges retired & FDR got to appoint new ones → they approved all New Deal legislation
the late 1930's – new Qs arose…
FDR concerned w/ int'l issues
in 1939 he proposed no new major domestic reform measures (1st time in his pres.)
ELECTION OF 1940 - FDR broke with tradition & ran a 3rd time
FDR v. Wendell Wilkie - the big issue here was American support of the Allies (G.B.), now embroiled in WWII v. Nazi Ger.
both U.S. pol. parties wanted to support G.B. but to remain neutral - in fact a CONSENSUS had developed b/n the Dems. and Repubs.
both parties approved of (most) New Deal legislation & wanted an isolationist foreign policy - FDR won in 1940 (and again in 1944)
a 3rd revolution in American culture and politics- more gov't involvement but w/in the context of traditional U.S. democracy (not socialist…)

New Deal helped in stimulating the U.S. economy, but only WWII would solve any lingering problems → unemployed found jobs in munitions factories and the military as the U.S. became the ARSENAL OF DEMOCRACY

New Deal saw expansion of U.S. gov't in:
1) eco. - constant gov't intervention/deficit spending
2) social reform - welfare state - after this pt the U.S. gov't was expected to play a role in any economic crisis

so FDR fundamentally reformed (not transformed) American society…