* Chapter 21
* The Great Depression
* 1928-1932
* Section 1-Causes of the Depression
* In 1928, Republican Herbert Hoover was elected president. Hoover was an accomplished public servant, born in Iowa and was orphaned as a child. He overcame his personal tragedy and eventually graduated from Stanford. He made his fortune in mining engineering and then devoted himself to public service. (Remember him from the Food Administration in World War I?)
* When he took office, America was at the peak of her confidence, despite the troubling signs.
* During the 1920s, American farmers faced difficult times.
* To meet the unprecedented crop demands created by World War I, they had increased harvest yields and bought more land to put under the plow.
* They also bought costly tractors and other mechanized farm equipment. Farmers contracted huge debts doing this.
* After the war, demand for American crops fell sharply, leaving farmers holding a lot of crops with no one to sell to and a lot of debt.
* Farmers did not share the boom of the 1920s.
* Unlike the farmers, industrial workers participated in the consumer revolution. During the 1920s their wages (and disposable income) rose steadily.
* The problem with this is while wages rose gradually, worker productivity increased dramatically. During the same period, corporate profits from worker output grew by 65%. This all pointed to the fact that during the 1920s, the rich became much richer while industrial workers simply became less poor. (The wealthiest 1% of the population earned about the same amount of money as the bottom 42%)
* This uneven distribution of the nation’s wealth created problems.
	+ More than 60% of all American families had yearly income of less than $2,000 per year.
	+ 24,000 of the country’s wealthiest families enjoyed annual incomes of more than $100,000.
	+ The problem was that the wealthiest few did not buy enough to keep the economy booming.
* From the overproduction of the struggling farmer to the under consumption of the lower-income industrial worker, there were many problems that created economic instability.
* For a time, these economic problems were hidden by the expansion of credit. Americans began buying everything on credit through the installment plan (even stock!).
* The growing credit burden could mask the problem of Americans living beyond their means for only so long before the economy imploded.
* On September 3, 1929, the stock market began to fall. Many economists predicted that the boom was over. They had lost confidence, which was the very thing that had kept the market up for so long. Prices peaked and then slid downward in an uneven way.
* At the end of October, the slide gave way to a free fall. On October 24 (Black Thursday), nervous investors began to sell.
* On October 29 (Black Tuesday), the bottom fell out. More than 16 million shares were sold as the stock market collapsed in the Great Crash.
* The crash of the stock market marked the beginning of the **Great Depression**, a period lasting from 1929 to 1941 in which the economy faltered and unemployment soared.
* Though it did not start the Depression by itself, the stock market crash sparked a chain of events that quickened the collapse of the U.S. economy:
* 1. Banks collapse
* Frightened depositors feared for their money and tried to withdraw it from their banks. Few banks could survive a sustained run of requests by depositors for their money.
* Also, there was a misguided monetary policy. During the 1920s, the Federal Reserve, which regulates the amount of money in circulation, cut interest rates to stimulate economic growth. But in 1929, worried about invester overspeculation, the “Fed” limited the money supply to discourage lending. As a result there was too little money in circulation to help the economy after the stock market crash.
* The banks were cleaned out of money and forced to close.
* 2. Businesses close and unemployment rises
* Business leaders believed that the survival of their companies depended on production cutbacks (to maintain price levels) and layoffs (to reduce payroll).
* Companies began closing plants and forcing workers onto the growing list of the unemployed.
* As unemployment grew and incomes shrank, consumers spent less money. So businesses cut production even more, closing more plants and laying off more workers.
* By 1933, nearly 25% of all American workers had lost their jobs.
* 3. Tariffs
* To protect American products from foreign competition, Congress passed the **Hawley-Smoot Tariff**, which raised prices on foreign imports to such a level that they could not compete in the American market.
* The tariff inspired European countries to retaliate and enact protective tariffs of their own.
* The Hawley-Smoot Tariff added to the problems of the depression.
* What caused the depression?
* It was believed that the depression resulted from a contraction in the money supply. The crashing of the stock market and the run of bank failures left too little money in circulation for the nation’s economic needs.
* It was also argued that the lack of government interference in the economy led to the depression. Critical problems in the money supply, distribution of wealth, stock speculation, consumer spending, productivity, and employment could have been controlled by proactive government policies.
* Section 2-Americans Face Hard Times
* After the stock market crash, the American economy staggered into the Great Depression, which had a deep and lasting impact on the lives of Americans.
* The Great Depression touched every American because every American either experienced or knew someone who experienced the hardships and loss caused by the economic catastrophe.
* Between 1921-1929, annual average unemployment rates never rose above 3.7%. But during the depression, it was 24.9% by 1933! (The current rate, at it’s highest during our recent recession was between 7-8%.)
* Those who did not lose their jobs suffered severe cuts in hours or wages.
* As more and more Americans lost their jobs, many lost their homes as well. Suddenly families were homeless and hungry. Often the only place for the family to get a free scrap of food was in a **bread line**, where people lined up for handouts from charities or public agencies.
* This great feeling of loss—this sense of the American Dream betrayed—became engrained in the fabric of American culture during the Great Depression.
* Homeless people grouped together in **Hoovervilles**, makeshift shanty towns of tents and shacks built on public land or vacant lots.
	+ One of the largest Hoovervilles was in the middle of Central Park in New York City.
* Homeless and unemployed walked the city streets looking for work with their pants pockets turned inside out, a sign of poverty known as **Hoover flags**.
* Farmers had been suffering even before the Great Depression. Falling commodity prices and accumulating debt had made it a struggle for farmers to keep their heads above water. Many failed to stay afloat and sank so deep they lost their farms.
* Between 1930-1934, nearly one million farmers failed to pay their mortgages and lost their farms.
* To make matters even worse, the Great Plains was suffering through a drought, an ecological disaster that lasted for years.
* Intensive farming came to this area in the late nineteenth and early twentieth centuries. Farmers plowed much of the natural grasses in order to plant winter wheat. In the past, plains grasses prevented the topsoil from blowing away during droughts.
* By 1932, a combination of drought, loose topsoil and high winds resulted in disaster on the Great Plains.
* Winds kicked up towering dust storms that blew east. These gigantic clouds of dust and dirt could rise up to 8,000 feet and move as fast as 100 miles per hour. They blocked out the sun, making it very dark. The storms killed cattle and birds, blanketed rivers and suffocated fish. Dirt seeped into houses, covering everything.
* This led to the Great Plains becoming known as the **Dust Bowl**. Conditions were the worst in Texas, Oklahoma, Kansas, New Mexico and Colorado.
* Farm families had no choice but to migrate out of the region (about 800,000). They had lost their farms to the bank. Dust storms had destroyed all remaining opportunities. Dust Bowl refugees became known as **Oakies**, regardless of their state of origin. Most went to California, Oregon or Washington.
* As a result of the migration, rural states lost population while states with large cities gained population.
* Later, dams would be built to provide irrigation to the Great Plains, restoring opportunities there.
* In the 19th and early 20th centuries, an economic slump was called a “panic” or a “crisis.” President Hoover used the word *depression* because he thought it sounded less severe. The term described not only a state of mind, but also an economic reality. It showed a despondent America, filled with people overwhelmed by seemingly inescapable poverty.
* For millions of Americans, the depression was an intensely personal affair.
	+ Men who lost their jobs and could not find work felt they had betrayed their families; they could not be the “bread winners” for their families.
	+ People with jobs lived in fear that their pay would be drastically cut or that they would be laid off.
	+ Wives and children experienced the pain of their husbands and fathers. Suicide rates soared. Birthrates plummeted to the lowest in American history—a sign of family distress. Some children quit school. Others ran away from home.
* Section 3-Hoover’s Response Fails
* Herbert Hoover did not cause the Great Depression, but Americans looked to him as their President to solve the crisis.
* Hoover attempted to respond. He was a very intelligent man, he was familiar with business methods and economic theory. Hoover labored long hours, consulting with a wide range of experts to try and solve the problems of the depression. In the end, he failed to discover the right formula, but it was not from lack of effort.
* Hoover followed a hands-off policy in the beginning. He felt that government should not interfere with such events. He thought periodic depressions were like storms. They could not be avoided, but the strong businesses could weather them without the support of government.
* A policy of doing nothing, however, was no policy at all. Hoover soon recognized this and so he adopted the policy of volunteerism. He asked business and industrial leaders to keep employment, wages and prices at current levels. At the same time he called for the government to reduce taxes, lower interest rates, and create public-works programs. The plan was to put more money into the hands of businesses and individuals to encourage more production and consumption.
* Hoover also requested that wealthier individuals give more money to charity. The idea was for all Americans to voluntarily join forces to combat the depression.
* The ideas behind this volunteerism plan were good, but Hoover’s program relied too much on voluntary cooperation. It didn’t work. Businesses had to cut wages and lay off workers in order to protect themselves. Most Americans had to follow individual, not cooperative, courses.
* Hoover had faith in **localism**, the policy whereby problems could best be solved at local and state levels. However, towns, and states simply did not have the financial or human resources to successfully combat the crisis. Making matters worse, Hoover strongly resisted using federal resources to provide direct relief to individuals.
* The association of Hoover’s name with suffering and want indicated Americans’ negative feelings about their leader. Hoover decided to reverse course and use federal resources to provide relief.
* He and Congress created the **Reconstruction Finance Corporation (RFC)** which gave more than a billion dollars of government loans to railroads and large businesses.
* This was an idea known as **trickle-down economics** which held that money poured into the top of the economic pyramid would trickle down to the base. (Hoover hoped the creation of the RFC would indirectly provide more jobs.) However, in the end, the money did not trickle down to the people who needed it most.
* At this point many Americans lost faith in their country and their government.
* Most did not want a revolution, just substantial changes.
	+ For example, in 1924, Congress passed the Adjusted Compensation Act which provided for a lump-sum payment to the veterans in 1945. But in 1931, many veteran groups began to call for an early payment of the bonus, arguing that unemployed vets needed the money to support themselves.
	+ In the summer of 1932, almost 20,000 of the World War I veterans known as the **Bonus Army**, marched in Washington in protest. They set up camp in empty government buildings. A riot broke out in July when police tried to evict the marchers from their makeshift settlements.
	+ Hoover called for General Douglas MacArthur to clear them out. MacArthur exceeded his order and removed the marchers from the city altogether. The removal was violent with more than 1,000 marchers being tear-gased and many were badly injured.
* This violent removal of the Bonus Army outraged Americans and ended any hopes Hoover may have had of winning reelection in 1932.
* With unemployment at 25%, people starving and homeless, Hoover’s policies had failed completely. Americans were ready for a change.