Crash and Depression

1929-1933

• Toward the end of the 1920s, it seemed as though the economic boom would never end. However, there were warning signs that the economy was unbalanced.

• Most money was concentrated in a small percentage of the population who tended to save or invest rather than buy goods.

• Industry produced more goods than consumers wanted or could afford.

• Farmers and many workers had not shared in the economic boom.

• Speculators bought stocks with borrowed money and then pledged those stocks as collateral to buy more stocks.

• The Federal Reserve cut interest rates in the 1920s to spur growth, but failed to spur growth in 1929.

  • How does cutting interest rates spur growth?
  
  • Depositors will earn less money by allowing their assets to sit in bank accounts, so they will be more likely to invest it in a way that promises a higher return or simply spend it.
  
  • Investing it in other ways (such as buying stocks or starting a business) and spending it will both have a stimulating effect on the economy.
  
  • On the other hand, people will have less incentive to keep their money in a bank, and if they are scared about their economic future, they may choose not to risk it or spend it, either – they can always stuff cash in a mattress.

• By 1929, many stock prices soared far above their real value in terms of the company’s earnings and assets.

  • In a sense, there was no longer any rational connection between a company’s stock value and its real value.

• Although business and political leaders tried to reassure Americans, by October 24th, worried investors began to sell.

• October 29, 1929, known as Black Tuesday, witnessed the single largest sell-off in stock market history.

• Overall losses totaled $30 billion.

• How might an investor who purchased stock prior to 1928 react differently from someone who had purchased stock in 1929?
Initially, the effects of the Crash were felt only by the 4 million people who were heavily invested in the stock market.

The results of the Great Crash were symptoms of a contracting economy, which is marked by a falling output of goods and services.

The Great Crash began the most severe economic downturn in American history, the Great Depression, which lasted until 1941.

By 1932, 12 million people (about 1/4 of the labor force) were unemployed.

Gross National Product decreased from $103 billion in 1929 to just $56 billion in 1933.

Please draw a flow chart showing how the Great Crash reverberated through investors, businesses, banks, and the world economy:

- Risky loans hurt banks
- Consumer borrowing
- Bank runs
- Bank failures
- Savings lost
- Production cuts
- Rise in unemployment
- Further production cuts

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• Homeless people sometimes built shanty towns that came to be called Hoovervilles, hounding the President for inaction, or hobo jungles.

• The severe weather persisted for ___________.

• For many farmers, the Depression was made worse by an environmental tragedy that turned the Great Plains into the Dust Bowl.

• This phenomenon resulted from a severe drought and poor farming practices.

• The most severe dust storms were known as Black Blizzards.

• The severe weather persisted for 7 years.

• Other homeless people drifted from place to place by hitchhiking or riding the rails.

• Farm families suffered from low crop prices that cut their income and prevented them from paying their mortgages. When banks foreclosed, many farms were put up for auction.

• Poor __________ practices.
The combination of terrible weather and low prices for farm products caused about 60% of affected farmers to lose their farms. Many migrated to California to find work as farm laborers.

Dorothea Lange
- Born in 1895 in Hoboken, NJ
- Professional photographer
- Hired by the Farm Security Administration to document Depression life from 1935 to 1939
- Died in 1965
- Do you see parallels between her work and the photography of Jacob Riis in the New York slums a generation earlier?

Migrant Workers of the 1930s
As the Depression continued, it took a serious **physical** and **psychological** toll on the nation.

**Impact on Health**
- Some people starved, and thousands more went hungry
- Impoverished and undernourished people got sick more easily
- Children who suffered from a poor diet and inadequate medical care felt the consequences for the rest of their lives

**Stresses on Families**
- Families who lost their homes often moved in with relatives, leading to crowded conditions and sacrificed comforts
- Unemployed men often felt like failures, too ashamed to ask for charity; many abandoned their families
- Working women were accused of taking jobs away from men; married women found it increasingly hard to find jobs
- Even today, poverty is closely associated with broken families

**Discrimination**
- Hard economic times put groups of Americans in competition with one another
- Suspicions and hostilities directed against minorities increased; more lynchings occurred
- Whites began to seek the low-skill, low-paying jobs traditionally offered to minorities
- Thousands of Hispanics and Asian Americans were deported
- Black unemployment reached 56% in 1932
- Even government relief programs discriminated against minorities, so churches and private groups offered aid
- The criminal justice system often ignored the rights of minorities
The Scottsboro Boys

- Nine black teenagers accused of raping two white women aboard a train in Alabama in 1931
- All were convicted by an all-white jury; eight sentenced to die (one deemed too young)
- The American Communist Party publicized the case
- Defendants were retried three times; one of the alleged victims recanted; charges were dropped against four of the teens
- All spent at least some time in prison, several many years; most of their lives ended badly
- This case discredited the tradition of all-white juries in the South
- By 2013 all had received posthumous pardons

From Injustice Came...

- Powell v. Alabama (1932) – The US Supreme Court ruled that in capital cases, “due process” requires that defendants be given access to legal counsel upon request
- Patterson v. Alabama (1935) – The US Supreme Court ruled that the defendant’s due process rights were violated because blacks had been categorically excluded from his jury pool

- Long after the economy recovered, many Depression survivors continued to act as if financial ruin was just around the corner. They pinched pennies, avoided debt, and even stuffed money in mattresses, rather than trust it in banks.
- Throughout the country people pulled together to help each other. Tenant groups formed to protest rent increases and eviction.

- In some farm communities, local farmers met and secretly agreed to keep bids low during what came to be called penny auctions. Buyers then returned the farms and machinery to the original owners.
- Some states, including Iowa, passed laws suspending foreclosures on farms.
- Many young people left their homes either out of necessity or to seek a better life.
- Young people riding the rails were vulnerable to many dangers, including injury, the possibility of arrest, or even the threat of being shot.
• These drifters came to be called **hobos**.

**Hobo Signs**

• Before emoticons and text messages...

• Charles B. Darrow, an unemployed man from New Germantown, PA, created the board game *Monopoly* so that people could amuse themselves with the fantasy of wealth.
  – In actuality, Darrow copied elements of an earlier game (*The Landlord’s Game*, patented by Lizzie Magie in 1903) and then sold it to Parker Brothers.

• As bad as things were, few Americans called for **violent political change**. This contrasted with Europe...
  – Fascists took control of Italy in 1925
  – Nazis took control of Germany in 1933
  – Communists and Fascists fought for control of Spain from 1936 to 1939
  – Communist parties grew more popular in many European countries as well.

• Radical reform movements included the **Communist** political party, which had about **14,000** members. Its candidate won over **100,000** votes in the 1932 election, while the less radical **Socialist** party won **881,951** votes.

• People fought despair by **humor** especially about President Hoover: ...Hoover Blankets... Old newspapers used by homeless people sleeping outside... Turned-out pockets...
Will Rogers: Depression Humorist

- 1879-1935
- A comedian, commentator, and actor, he was one of the best-known performers of the 1920s and 1930s.

Some of Will Roger’s Jokes

- “Everything is changing. People are taking the comedians seriously and the politicians as a joke.”
- “A fool and his money are soon elected.”
- “The income tax has made more liars out of Americans than golf.”
- “Even if you are on the right track, you’ll get run over if you just sit there.”
- “A senator got up today in Congress and called his fellow senators sons of wild jackasses. Now, if you think the senators were hot, imagine how the jackasses must feel.”
- “Diplomacy is the art of saying ‘nice doggie’ until you can find a rock.”
- “I belong to no organized party; I’m a Democrat.”

In February 1933 Congress passed the 21st Amendment, ending Prohibition. It was ratified that year.

Some regretted the repeal, but most welcomed it as an end to a failed social experiment and as a check on gangsters who profited from bootlegging.

When Prohibition was introduced, I hoped that it would be widely supported by public opinion and the day would soon come when the evil effects of alcohol would be recognized. I have slowly and reluctantly come to believe that this has not been the result. Instead, drinking has generally increased; the speakeasy has replaced the saloon; a vast army of lawbreakers has appeared; many of our best citizens have openly ignored Prohibition; respect for the law has been greatly lessened; and crime has increased to a level never seen before. – John D. Rockefeller

Eight states continued to ban alcohol:
- Texas allowed alcohol sales in 1935.
- North Carolina allowed alcohol sales in 1937.
- Kansas allowed alcohol sales in 1948.
- Oklahoma allowed alcohol sales in 1959.
- Mississippi allowed alcohol sales in 1966.

To this day, many states allow counties (or municipalities) to prohibit alcohol sales locally.

For many, a dramatic symbol of hope was the new Empire State Building, the world’s tallest building (at that time). It was developed by John J. Raskob, at the cost of about $41 million.

By the mid-1930s, symbols of the 1920s had mostly faded. Al Capone was sent to prison. President Coolidge died. Baseball legend Babe Ruth retired. Industrialist Henry Ford was vilified by organized labor. Aviator Charles Lindbergh suffered personal loss when his son was kidnapped and murdered.

Universal Newspaper Newsread
END OF PROHIBITION NAILED
BY JOYFUL CROWDS AS
REPEAL BECOMES LAW

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• For a few months after the stock market crash, Hoover insisted the key to recovery was confidence.

• Hoover blamed the Depression on world-wide economic conditions beyond his control.

• He believed that voluntary controls by businesses were the best way out of the crisis.

• In spite of a promise to the contrary, many firms quietly cut workers’ pay.

• After a year of misery, the public began to blame him and the Republicans for the crisis.

• Even before the Depression, Hoover passed the Agricultural Marketing Act to create a Federal Farm Board and stabilize the prices of farm crops. The program failed at the cost of 150 million dollars.

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– The bill, sponsored by Willis Hawley (R-OR) and Reed Smoot (R-UT), did not cause the Depression; tariffs were already high and other countries were already raising their tariffs. The bill did intensify nationalism, however.

– Foreign trade kept declining.

– Democrats initially gained 52 House seats in the November election, but Republicans lost additional seats in later elections when 19 Representatives-elect died before the new Congress convened. Democrats gained a one seat majority; Republicans would not rule the House again until 1946.

– Republicans retained control of the evenly split Senate through the Vice President’s tie-breaking vote.
• In 1932, Hoover set up the Reconstruction Finance Corporation to give government credit to large industries, railroads, insurance companies, and banks.

• To many people, it seemed the government was helping big banks and businesses while ordinary people went hungry.

• In spite of several programs, Hoover insisted that state and local governments should handle relief.

• As the Depression deepened, some economists backed the idea of John Maynard Keynes, who argued that government spending could help a collapsing economy and encourage more private spending and production.

A British economist, his ideas dominated economics from the 1930s to the 1970s; Keynesianism focuses on government stimulus (spending and tax cuts) to spur economic growth.

• A low point for Hoover came when WWI veterans known as the Bonus Army encamped in Washington DC to demand the immediate payment of a bonus that had been promised for 1945.

• A few violent incidents prompted Hoover to call in the Army, which, under the command of Douglas MacArthur, drove the protesters out of Washington DC.
Campaigning for president, Franklin Delano Roosevelt pledged himself to a **New Deal** for the American people at the 1932 Democratic convention.

**What was FDR’s political background?**
- Roosevelt was born in 1882 into one of the wealthier and most political families of New York
- He became a lawyer, state senator, Assistant Secretary of the Navy, and the 1920 Democratic nominee for Vice President
- A bout with polio removed him from politics until he was elected New York governor in 1929
- He was nominated for President in 1932

**What was Eleanor Roosevelt’s political background?**
- Eleanor, Teddy Roosevelt’s niece, grew up in a wealthy and politically active family and became an experienced reform advocate
- Prior to marrying Franklin, her distant cousin, she worked for many causes:
  - Public housing legislation
  - State government reforms
  - Birth control
  - Better working conditions for women

Unlike Hoover, FDR was ready to experiment with **governmental roles**.

The campaign was more than a contest between candidates; it was a contest between two **philosophies of government**.
- FDR represented an activist government that would provide more services for people but would also take more in taxes and have more control over people’s lives
- Hoover represented a limited government that would expect people to do more for themselves

Many Americans did not support Roosevelt because of his **ideas**, as much as they opposed Hoover because he had been **passive**

FDR won by a margin of **7 million** votes, especially with support from **urban workers**, **coal miners**, and **immigrants**

[Graph showing popular vote]