The Great Depression

The Coming of the Great Depression

In his August 11, 1928 Republican nomination acceptance speech, Herbert Hoover proudly proclaimed: "Unemployment in the sense of distress is widely disappearing…. We in American 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…. [A]nd we shall soon with the help of God be in sight of the day when poverty will be banished from this nation." Fifteen months later, Hoover's words would come back to haunt him as the nation plunged into the severest and most prolonged economic depression in its history.

Although there is no single date in which the Great Depression began, the sudden financial collapse of the United States' stock market in late October 1929 came as a severe shock given that it followed on the heels of a period in which the economic policies of the Roaring Twenties seemed to offer prosperity to most Americans. Between February 1928 and September 1929, the average price per stock rose over 40%. The stock prices for the major industrials—those that were used to determine the Dow Jones Industrial Average—doubled in value in that same period. Prior to 1928, an average of 2 to 3 million shares were traded in a single day. However, during this 20-month period, trading mushroomed to an average of 5 million shares, and even as many as 10 or 12 million shares, a day. A widespread speculative fever grew steadily in the late 1920s as brokerage firms began encouraging the mania by offering easy credit to those buying stocks. Investors bought stocks on a 10 percent "margin"—putting up 10 percent of the price of a stock and borrowing the rest from brokers or banks. These speculators expected to resell their shares within a few months at dramatically higher prices, pay back their loans from the proceeds, and reap a handsome profit. This proved to be a successful investment strategy and attracted so much investing that the stock market spiraled steadily upward. In 1925, the average value of all stocks stood at about $27 billion; by October 1929, it had soared to $87 billion.

The Federal Reserve Board attempted to forestall the speculative fever raging throughout the nation by raising the interest rate on Federal Reserve notes and warning banks to tighten their lending policies. But with speculators willing to pay up to 20% interest to buy more stock, lending institutions continue to loan money freely, thus dumping gasoline on a raging fire. Indeed, higher interest rates also triggered an international crisis. For example, German and Austrian banks went bankrupt and spread financial panic throughout Europe.

The Great Crash

The collapse came on October 24, 1929—"Black Thursday." Prices declined rapidly as stocks became worthless when no one was willing to buy them. Then, on "Black Tuesday," October 29, 1929, 16 million shares exchanged hands; the industrial index dropped 43 points (nearly 10%), wiping out all the gains of the previous year; stock values plummeted $14 billion that day. Over the course of the next three years, values dropped even lower. By July 1932, when the industrial index bottomed out at 58 points (the index had stood at 452 points in September 1929), $74 billion of wealth had simply disappeared.

As news of the Great Crash spread, crowds gathered at the New York Stock Exchange. (Library of Congress)

The Great Crash did not cause the Great Depression. Indeed, only about 500,000 people were actually actively involved in trading stocks. But their investments had helped sustain the nation's prosperity. Thus, the Great Crash severely damaged the economy. Thousands of middle-class investors lost their savings. The ripple effects trickled down and soon, unemployment rates soared to an unprecedented 25 percent, leading to rampant poverty and even hunger in many areas. By the end of 1929 alone, more than 2 million Americans were out of work.

Causes of the Great Depression

Just as there is no single date for the beginning of the Great Depression, there is no single cause that can be attributed to the decline of the nation's economy. In fact, despite the prosperity that many Americans experiences in the Roaring Twenties, farmers had felt the sting of the agricultural sector, which had remained depressed since the end of World War I. With the war over, European agriculture recovered resulting in American farm prices to drop. American farmers, who had earned 16% of the national income in 1919, made up only 9% of the national income in 1929. As more and more farms went bust, so did the rural banks that had lent them money. These failures exposed the problem of the nation's uniquely decentralized banking system. With half of the 25,000 banks in America outside the Federal Reserve System, its control over the system was weakened. During the 1930s, approximately 6000 banks failed.

In the construction and industrial sector, companies staggered as consumer demand for houses and automobiles sagged. In fact, the prosperity enjoyed by these businesses in the 1920s contributed to their misfortunes as they increased profits by keeping the cost of labor and raw materials low. They then used their profits to expand their factories and increase productivity. But by refusing to increase the wages of their laborers, consumers did not have enough money to buy the new products factories kept turning out and warehouse inventories filled up.

Consequently, the American economy was over expanding itself at the same time that consumer-purchasing power was declining.

The Federal Reserve's tight-money policies of the late 1920s and early 1930s also contributed to the economy's decline. The Reserve's polices strangled any hope of economic recovery by reducing the amount of money available to businesses to induce investment and growth to give the economy a kick-start. The Tariff Act of 1930, or the Hawley-Smoot Tariff Act, made it difficult for Europeans to sell their goods to Americans. The protective tariff raised rates on 75 agricultural goods and 925 manufactured products from 32% to as high as 40% (highest tax rate in American history) in the hope that such protection would assist American industry. The legislation was disastrous, however, as angry foreign governments retaliated by raising their tariff rates to exclude American goods. This was doubly damaging to the health of the international economy after the misguided policies of the Federal Revenue Board.

Significantly, a maldistribution of wealth building throughout the 1920s also hindered economic recovery. In spite of the fact that the average income rose steadily during the 1920s, the incomes of the wealthy rose increasingly higher and more rapidly while the incomes of the poor rose less rapidly and less dramatically. By 1929, 1% of the population owned 36% of all the personal wealth. By 1932, the average American family had an annual income of $1348, which was $650 shy of the $2000 annual income economists calculate that a family of four needed for necessities alone. The Coolidge administration is partly to blame for this redistribution of wealth since its policies lowered taxes on the wealthy, thereby increasing the proportion of national wealth in their hands. This unevenness served to slow consumption and hinder the growth of consumer industries (i.e. cars, appliances, recreation, etc.). Since the wealthy saved their money and spent a smaller portion of their income on consumer products and activities than average laborers did, consumer industries were unable to rebound from the crash of 1929. Putting more of the increased national wealth in the pockets of average Americans during the 1920s would have most likely have stabilized the demand for consumer products and strengthened emerging consumer industries. Such an economy might have recovered relatively quickly, but instead, recovery lagged until World War II spurred the nation's economy a decade later.

Hoover's Response

As an initial solution, President Hoover took an associational approach, encouraging organizations of farmers, industrialists, and bankers to share information and devise policies to aid economic recovery. By restricting agricultural output and holding down manufacturing wages at pre-depression levels farmers and industrialists hoped to trigger an economic rebound. Bankers merely helped each other stay afloat. These policies were in-line with Hoover and the Republicans' *laissez-faire*—leave it alone—approach to government and economics.

When this tactic proved ineffective, Hoover initiated a much more aggressive set of economic policies, foreshadowing some aspects of Roosevelt's New Deal plan. He passed the Glass-Steagall Act of 1932, which aimed to help American banks meet the demands of European depositors who wanted to convert their dollars to gold. Hoover further expanded the federal government's economic role by creating the Reconstruction Finance Corporation (RFC) in 1932, which granted $2 billion in loans to ailing banks and to corporations willing to build low-cost housing, bridges, and other public works.

Despite this significant use of authority in the national economy, Hoover was reluctant to utilize these government loans to help financially unstable institutions. Only relatively healthy institutions that were capable of repaying the loans were considered eligible. As a result, the RFC spent considerably less than Congress had mandated. Hoover was also ambivalent about the effect of public charity on society. Charity, he believed, only served to destroy the work ethic of the poor and destitute and to undermine their sense of self-worth. Many critics pointed to the apparent hypocrisy of Hoover's policies. For instance, in 1930, Hoover declined a request for $25 million to help feed Arkansas farmers and their families but then approved $45 million to feed the same farmers' livestock. Similarly, in 1932, he rejected a request from the city of Chicago for aid to help pay its teachers and municipal workers, but then approved a $90 million loan to rescue the city's Central Republic Bank.

Popular Protest

In the summer of 1932, a group of army veterans led the most celebrated popular protest movement of the Great Depression. In 1924, Congress had approved a $1,000 bonus for World War I veterans in the form of compensation certificates that would fully mature by 1945. The veterans began to demand that the bonus be paid immediately. A group of veterans from Portland, Oregon, calling themselves the Bonus Expeditionary Force headed east determined to stage a march on Washington. The army acquired "reinforcements" along the way that by the time they reached Washington, the Bonus Army's numbers had grown to 20,000 including the veterans' wives and children. They created a "stronghold" on the outskirts of Washington and petitioned Congress to pay their bonuses early. Although the House of Representatives consented to pay the veterans, the Senate rejected the House's bill and President Hoover refused to meet with them. In July 1932, the president ordered federal troops to clear Washington of the veteran army. Exceeding the president's orders, military officials led the army into the veterans' encampment, dispersing the protestors and setting their tents and shacks ablaze. In the wake of the incident, 100 veterans were wounded and one infant child was killed. The media coverage of this instance hardened anti-Hoover sentiment throughout the nation and derailed the president's chances of winning reelection.

Conclusion

The Great Depression taxed the nation as few events in American history ever had. It created unemployment on a scale never before nor experienced since in the United States. Enormous pressures were placed on families, on communities, and on state, local, and national governments. Because he ultimately failed to produce policies to jumpstart the economy and failed to deal innovatively and effectively with the burgeoning crisis, most Americans attributed the Great Depression to Herbert Hoover and judge his presidency an abysmal failure. His name was even attributed to the shantytowns made up of destitute and unemployed laborers that sprung up throughout the nation during the Great Depression. These "Hoovervilles," as their inhabitants dubbed them, left an indelible mark on the minds of many Americans.

When the 1932 election commenced, the Republicans refused to abandon Hoover as their candidate; the Democrats nominated Governor Franklin D. Roosevelt of New York as their nominee for president. Breaking precedent, Roosevelt flew to Chicago to accept the nomination in person pledging a ringing, but fuzzy promise: "I pledge you, I pledge myself, to a new deal for the American people." Partly due to Hoover's unpopularity and partly due to the Democrats'

pledge to cut federal spending by 25% to ensure a balanced budget and fuzzy promises to provide federal public works and unemployment relief, Roosevelt won in a landslide victory, receiving nearly 58% of the popular vote to Hoover's 40% (22,821,857 to 15,761,841) and garnering 89% of the electoral vote (472 to 59).

The scene on March 4, 1933, Roosevelt's inauguration, as Hoover and the President-elect rode down Pennsylvania Avenue reveals not only the personal bitterness but also the contrasting nature between both men. As Hoover rode glumly sat next to the man who had beat him in the election, Hoover's appearance revealed that he believed the nation was headed for disaster and nothing could be done to steer it back on course. Roosevelt, on the hand, appeared buoyant, exhibiting a beaming smile that exuded confidence that he could resurrect the nation's prosperity and assume a position as a leader in the world.