

STUDY GUIDE: “THE GREAT DEPRESSION AND NEW DEAL”

Using this study guide

The following document has all of the terms, quotes, lists, and ideas contained in the most recent powerpoint presentation (note: I change these frequently so some variations may exist). As a result, you should not feel that you need to copy any of this information while in class.

The following questions are addressed in this section of the lecture. You should be able to answer these questions by the end of this section. If you can't, see me during my office hours or talk with your seminar leader:

Questions Addressed in the Lectures that will help you to prepare for the exam:

- What caused the Great Depression? What made it Great?
- Why did Hoover seem the perfect President in 1928 and a complete incompetent by 1932? What did Hoover fail to see the severity of the Great Depression?
- Why was FDR so important to America's psychological recovery from the Great Depression?
- What were and what happened during the first 100 days? The second 100 days? Who were and what was the effect of more radical voices?
- Did the stock market crash cause the Great Depression? Did the New Deal end the Great Depression? Why are FDR and the New Deal so important then?

Sample Exam Questions from Previous Exams:

- (i) Using specific examples, show how did the Great Depression destroyed most American's faith in industrial-capitalism (at least as it existed in 1929) (ii) How did the key policies of the New Deal try to address these doubts? (iii) Was the New Deal “new,” or were these policies developed before 1933 (be sure to indicate who first came up with these ideas, if not FDR and the New Dealers)?
- (i) Using specific examples, show why the Great Depression was “great” and how this destroyed most Americans's faith in industrial-capitalism (at least as it existed in 1929) (ii) What were some key policies of the New Deal, and how did they try to address these doubts? (iii) What role did Franklin Roosevelt play in helping Americans cope with the Great Depression?

Selected Terms:

- The Great Depression
- Herbert Hoover
- “Voluntary Cooperation”
- Reconstruction Finance Corporation (1932)
- The New Deal (1933-1937)
- Franklin Delano Roosevelt

- AAA (1933)
- NIRA/NRA (1933)
- RFC (under FDR)
- Father Coughlin
- Huey Long
- “Share Our Wealth” Wagner Act (1935)
- Social Security Act (1935)

General Lecture Outline:

- I. The “American Century” (Economic)
 - a. Instabilities
- II. The Causes of the Great Depression
 - a. Not the Stock Market Crash
 - b. Consumer Issues
 - c. Production Issues
 - d. Governmental/Regulatory Issues
 - e. The “New Deal” is a direct response to all three of these “issues”
- III. Herbert Hoover
 - a. Bio and Response to Great Depression
 - b. Problems with HH Response
 - c. Banking Crisis
 - d. The Bonus Army: Important for the TONE it sets for reform
- IV. Why is this a “Great” Depression?
 - a. Middle-class hit hard
 - b. Industrial Capitalism
 - c. Farm Population
 - d. Loss of Hope
 - e. Sympathy for Poor
- V. FDR and the New Deal
 - a. Bio and Response to Great Depression
 - b. What is the New Deal, what does it do/not do?
 - c. First Hundred Days
 - i. AAA
 - ii. NIRA
 - iii. RFC
 - d. Radicals and the New Deal
 - i. Huey P. Long
 - e. Second Hundred Days
 - i. “Big Bill”
 - ii. Social Security Act
 - iii. Wagner NLRA
 - f. End of the New Deal
- VI. Conclusions to the New Deal

Powerpoint Notes:

U.S. Stands Alone at the Summit

Dawn of the “American Century”

Economically...

40% of world’s wealth

2x per capita output of Great Britain

Produced...

2x Electricity than rest of world

90% of all automobiles and accessories

Nearly all copper, refined petroleum products, and industrial chemicals

Socially...

Welfare Capitalism producing what socialism can only promise

But if the U.S. economy caught cold, the world could get sick

Yet 1920s Saw Tremendous Business Cycle Instabilities

Rural Depression (1919-1929)

Automobile markets glutted, sales flat since 1925

Residential Construction flat

\$2B Business inventory in 1929 4x that of 1925

Stock speculation frenzy (1928-29)

“High Tech” stocks like RCA climb 10-20% in a single day

Margin purchases

Questions for HIST-1302

What caused the Great Depression and was it preventable?

What responses are fashioned by Hoover and Roosevelt? Do they work?

Why is this depression “greater” than others?

Where does the New Deal come from, what is it, and when does it end?

The Crash

NOT THE CAUSE OF THE GREAT DEPRESSION !!

Crash reflects instabilities

Wed. Oct 23, 1929 (-\$4B)

Thur. Oct 24, 1929 (-\$9B)

Tues. Oct 29, 1929 (-\$26B)

But not a depression

By 1930, 20% of value regained!

In 1930, NYSE still 2x value in 1926

What did “cause” the Great Depression?

A CONVERGENCE OF FACTORS (all predictable given what we’ve talked about)

I. “Consumer Issues”

Falling farm prices

Farm Income falls 50% by 1929

Wages fail to keep pace with economic growth

60% U.S. families earned less than \$2k/year
Small businesses fail to keep pace with growth
70% of all manuf. by firms capitalized at over \$1m
40% of all banking by <1% of banks
Loose Local Credit
\$750m-\$1b in unsecured consumer loans

II. "Production Issues"

Over-production
Huge inventories
Marginal cash flows (tied to credit)
Advertising creates artificial demand (tied to "consumer confidence")
Declining housing starts
Home construction: multiplier effect
Cost of housing and rent rising rapidly

III. "Governmental/Regulatory Issues"

In 1920s, the "business of America was business" (not laborers or the middle-class)
Poor monetary policies (Gold Standard)
Rapid deflationary pressures protect capital rather than capitalists
What did "cause" the Great Depression? (III. "Gov't/Regulatory Issues" cont.)
Corrupt business practices
Stock options
Insider information
Margins (like stock options today)
Huge (and false) dividends
Bank Failures
Probably greatest single factor
Psychology of Capitalism

Herbert Hoover

Elected November, 1929
(still no Great Depression)
FDR in 1927: Hoover is "certainly a wonder and I wish we could make him President....
There could not be a better one."
Philosophy
"Volunteer cooperation"
Fears state interference
Demands balanced federal budget (used to be the defining element of Republican Party;
no Republican president has balanced federal budget since Nixon)

Hoover's Early Actions

Good mix of action and optimism
Calls special session of Congress
Agricultural Marketing Act (1929) passed
Agric. Co-ops

HH administration has three-prong attack

1. Pressure businesses not to cut wages (maintain Welfare Capitalism; they agree)
2. Federal Reserve eases credit to stimulate spending (they do)
3. Begin modest public work projects (\$140M by 1930)

But Hoover Trapped by (once surefire) Republican Ideology

Hoover: "You know, the only trouble with capitalism is capitalists; they're too damn greedy."

Strong Protective Tariffs (shuts down free trade assumptions of Woodrow Wilson's 14 Points)

Hawley-Smoot Tariff (1930)

"protection run perfectly mad"

1000+ economics sign petition for HH to veto the bill

Sr. partner at J.P. Morgan, Thomas Lamont: "I almost went down on my knees to beg Herbert Hoover to veto the asinine Hawley-Smoot Tariff. That Act intensified nationalism all over the world."

Social Darwinism

Depressions "weed out the weak"

Sec'y Treas. Andrew Mellon: "It will purge the rottenness out of the system. People will work harder, lead a more moral life."

Allow Business special interests to run Republican agenda (Corporate Liberal Progressivism)

Walter Lippman: "In the realm of reason [HH] is an unusually bold man; in the realm of unreason he is, for a statesman, an exceptionally thin-skinned and bewildered man"

Into the Abyss...

"Banks" in U.S. wholly unregulated

As a result of the 1929 recession, weak banks fold quickly

1929 = 659 banks (~500 not unusual in very bad years)

But modern financial system now more closely inter-related

Panic selling lowers stock values; loans called due to drop in assets

When bankruptcy occurs, debt remains and moves up the chain

Ripple effect: soon "good" banks and solid firms losing access to capital

Need money to make money

Banking crisis dries up access to capital for ALL

Bank Failures, 1929-1933

Hoover Responds

Federal Reserve "unwilling" to provide local credit to what they see as "short term" problem

Jan. 1932, Reconstruction Finance Corporation (RFC)

Hoover unwilling to aid unemployed, small businesses

But shows willingness to bail out biggest banks

\$500M immediate access to funds

Additional \$1.5B planned
But too late to stem the tide or turn the economy
Only addresses one component of “causes,” and even this was a mild response

By Contrast: The Bonus Army

17,000 unemployed veterans of WWI
March to Washington, camp outside of Congress (May-July, 1932)
Congress refuses to pay bonuses early
Hoover orders remaining men (~2000) removed
Gen. Douglas MacArthur leads U.S. Army in
attack of veterans’ camps

What Makes this Depression “Great?”

Bad Recession turns into unprecedented Depression. Why?
It happened to everyone, from banker to bricklayer, in one form or another (therefore everyone afraid of it happening to them or their families; intense social anxiety)

Why “Great”? Middle-class investments destroyed

“Nest eggs” for retirement or children’s education
\$7B lost in savings
¾ value of stocks gone by 1933
600,000 homes foreclosed

Why Great? Industrial Capitalism has no answers

Business investment falls from \$24B to \$3B
Auto production falls by 68%
Steel falls 60%
Home construction 80%
“Welfare Capitalism” suspended

Why Great? Farm Population Decimated

Farm income only 16% that of non-farm
Malnutrition
2x illiteracy

Why Great? Anxieties lead to loss of hope

25% of Americans had NO prospect of future employment
400,000 Mexicans return or forced to return to Mexico
100,000 Americans apply for work visas to the USSR in 1931 alone
Marriage rates fall 25%
Birth rate fall 15%
Optimism a central component of:
Capitalism
Progressivism
the Middle-Class “American Dream”
Why are you here in HIST-1302?

The most powerful photography of the era captures this sense of desperation
what happens when Americans no longer see their country as the “land of opportunity”
what new and radical ideas would appeal to you as you saw your family destroyed?

Why “Great”? Progressive sympathy for “environmental poverty” disappears

Harry Hopkins: “You can pity six men but you can’t keep stirred up over six million”

Radical political ideas appear more credible

Communism

Fascism

John Steinbeck, “...the grapes of wrath are filling and growing heavy for the vintage.”

FDR and the New Deal

What IS the “New Deal”?

Origins of a “General Welfare State”

Replaces CORPORATE Welfare State (welfare capitalism)

Describe government not by its limits (laissez-faire), but by its potential (progressive)

Intended to provide moral and economic “fairness” (progressive, like TR’s “Square Deal”)

Basic policies of GWS and New Deal:

Government to limit unemployment and spur economic growth (through fiscal policy;
John Maynard Keynes)

Government to assist those harmed by the economy through no fault of their own
(unemployment, old age, unions)

Government to protect the rights of property from larceny and fraud (regulation)

What does the New Deal Do?

First look at what it does not do:

End the Great Depression

Permanently change the nature of Federal intervention

It is National Progressivism

It is active as legislative agenda only from 1933-1938

Undermine industrial capitalism

Most conclude that ND “saves” industrial capitalism in US

Leap ahead of the American public

Fully supported, almost too conservative for those suffering the most

In hard times, a democracy can move too fast (Germany)

FDR’s Assets

Gregarious

Optimistic

Very “cool” under pressure

Eleanor

Poliomyelitis

Lack of Ideology (he’s smart but not an “intellectual” guided by a single principle)

When asked what his philosophy was, FDR responded: “Philosophy? Philosophy? I am a Christian and a Democrat — that’s all”

When Economist J.M. Keynes explains deficit spending, FDR doesn’t “get” the economics but does “get” the positive impact it will have on the American people.

Shows willingness to act!

FDR: “The country needs, and unless I mistake its temper, the country demands bold, persistent experimentation. It is common sense to take a method and try it: if it fails, admit it frankly and try another. But above all, try something.”

1932 Election

Blow-out by FDR

But he “won” a devastated country

What could he do?

Very little before taking office

Saw many people with wide range of advice

Took his own council; waited until he took office in March, 1933 (Depression rapidly expanding, Nov. 1932 to March, 1933)

FDR does have Ideas

Unlike most Democrats at that time (Bryan, Cross of Gold), FDR does not believe that the answer was simple inflation

FDR saw U.S. economic problems as a domestic issue – something that did not require the U.S. to take an international leadership role

Extremely important (we know what is coming)

Sets tone, connected to European appeasement

FDR sees greatest problem as over-production

“Commonwealth Club speech” San Francisco

Fed. Gov’t needed to play a permanent role in regulating unemployment

“New Dealers”

FDR brings in a lot of ideologues

Republicans fear (still do)

“Washington insiders”

Party-within-a-party

“Mandarins”

Young, well-educated, energetic Progressives

Harold Ickes

Francis Perkins

Henry Wallace

Marriner Eccles

Harry Hopkins

Felix Frankfurter

Most Importantly: FDR Sets a new tone for Hope

Inauguration

“Fear itself”

Congress called into special session
Emergency Banking Act
Fireside chat
Keep your money in the bank
First 100 Days

Farm Bill (AAA)

“domestic allotment” (subsidies not to plant)
Aggressively pursue federal planning
Alger Hiss
Henry Wallace
\$3.3 B
Also contains the Civilian Conservation Corps (CCC)
New Deal farm policy reversed in 1995 (Newt Gingrich-led Congress) with “Freedom to Farm” Act
Direct subsidy to LAND OWNERS – not “farmers” or farm families

National Industrial Recovery Act (NIRA)

Section 7 (a)
Regulation of the workplace, max. hours
Creation of National Recovery Admin.
Sets rules and wages for large industrial cartels
Textiles, coal, oil, retail all benefit
Auto and steel already ahead of NRA
Not anti-business; codes written by businesses
Public Works Administration (PWA)
\$3.3 B to pump into economy

RFC and Monetary Policy

Hoover wanted to provide credit to elite banks
New Deal uses RFC to go around elite banks
Undermine their authority
Immediately, 7,000+ institutions now creditors to U.S., \$11B
3,723 banks in Texas use RFC from 1932-1945
RFC controls flow of capital (huge change)

Gold Standard (US and UK off by 1933)

U.S. promises the world that they would maintain strong dollar
Inflation running wild in Europe, need strong country to absorb losses for a while for others to recover
FDR refuses to do it
Hitler saw this, U.S. unwilling to act for international community
1934-36

U.S. clearly not recovering fast enough
Radicals gaining greater voice

Fascists
Communists
Socialists
Labor radicals
Old Corporate Liberals
Several stand-out as prominent threats to FDR
Radicals
Father Charles Coughlin
Quasi-Fascist, anti-FDR
Anti-Communist, Anti-Semite, Anti-Big Business, Inflationist
USE the power of public fears to advance political goals
Dr. Francis E. Townsend
Senior Citizen Pension
Upton Sinclair

Huey P. Long

Louisiana Gov. then Senator
Share Our Wealth Clubs
100% tax on income over \$1m
100% tax on inheritance over \$3m
\$2-3000/yr guaranteed income
30 hour workweek
Money for students, elderly, veterans
“Every Man a King”
FDR: Long “one of the two most dangerous men in America.”

Long, Populism, and Fascism

Populism
Re-distributes wealth, generally for the benefit of a large population (lower economic strata)
Fascism
Concentrates wealth further, generally for the benefit of new political and military elite
Southern “Backwardness” (first major Southern national politician since Reconstruction)
Does Long suffer because he is a Southerner? His speech and mannerisms?

Radicals Give FDR Political Room (“triangulation”)

1934 Election creates odd political situation
Followers of Long, Townsend, and Coughlin not Revolutionaries
Political stasis creates fear that nothing will happen (indeed, U.S. government made to do just this)
Create radical pressures
FDR seizes the moment, moves hard to the left
Full security for the American laborer
2nd 100 Days

Emergency Relief Appropriation Bill

FDR's "Big Bill"

DEFICIT SPENDING

\$5B appropriated (more than all 1934 revenues!)

Projects are permanently funded but self-liquidating (meaning there is a definite end to the project)

CCC, PWA, dams, roads, bridges, hospitals funded

Rural Electrification

WPA

8.5 million employed over 8 years

\$11B spent

Support for the Arts and Humanities

Social Security Act (1935)

Greatest Legacy of New Deal

Old Age Insurance

paid by workers, not capital

Congress fears more radical plan by Long

FDR: "We put those payroll contributions there so as to give the contributors a legal, moral, and political right to collect their pensions and their unemployment benefits. With those taxes there, no damn politician can ever scrap my social security program."

Wagner National Labor Relations Act (1935)

"Magna Carta" of organized labor

NLRB

FDR always showed empathy for the working poor

N.C. mill worker: "Mr. Roosevelt is the only man we ever had in the White House who understood that my boss is a sonofabitch."

Real leadership from John L. Lewis, UMW

CIO formed in 1935

1935-7, CIO defeats GM and Big Steel

FDR Attacks Big Business

FDR made them butt of constant jokes

Called them "organized money"

Clearly Oppose New Deal

"Never before in all our history have these forces been so united against one candidate as they stand today. They are unanimous in their hate for me – and I welcome their hatred."

Why?

Little to lose

Political room for gains

1936 Election another cake walk

523-8 over Alf Landon

Second Inaugural he talks of the forgotten poor

Political Interpretation of New Deal

Republicans vilify New Deal as socialism or communism (angriest about public love for FDR; much like today's left and Ronald Reagan)

But some FACTS to consider:

The single greatest beneficiaries of ND policies are businesses

Markets now more stable and predictable

Biggest firms gain over small start-ups (auto industry)

ND projects limited to those activities that the private sector would not or could not do

Roads, schools, conservation, social insurance

ND creates a total of FOUR regulatory agencies

SEC, NLRB, Civil Aeronautics Authority, FCC

Most programs paid for by beneficiaries, not taxpayers

Social Security not income redistribution, but mandatory "insurance" paid for by workers

End of the New Deal (1937-8)

"Court Packing"

Conservative Justice James McReynolds: "never resign as long as that crippled son of a bitch is in the White House"

Issue over "substantive due process" (some rights so basic that even democratic reform can't touch them)

FDR misreads support of public and Southern Democrats

Irony (or not), Court then flips to defend New Deal

"Switch in time that saved nine"

Legacy was bitter Democratic in-fighting

The "Roosevelt Recession"

Business cycle kicks in (healthy sign)

1933-1937 saw only slight growth, natural for it to slow

FDR believes it an organized plot, a "capital strike"

Cuts reforms and budgets, FDR refuses to run deficit!!!

1939 Annual Message

First by FDR that does not propose a new program

Conclusions to the New Deal

1. Note what it did NOT do:

Did not redistribute income between classes

Did not challenge tenets of capitalism (TVA only state owned project)

Did not radically shift direction of Progressive government

2. Pattern does emerge: New Deal seeks to provide Security. New Deal limits excesses of earlier eras.

For Individuals – FDIC, Social Sec.

For Capitalists – SEC, RFC

For Workers – Wagner Act

3. In spite of FDR, there was a philosophy

Federal government had legitimate and beneficial role in regulating the economy

U.S. economy largely a domestic economy (avoid foreign mess)

Strongly supportive of (white) male working head-of-household

4. New Deal affects different people differently

Married Women, blacks, Mexican immigrants, unskilled poor had little to show
Skilled labor, married men, big business aided

5. New Deal stabilizes U.S. Economy. "Saves" capitalism?

End of New Deal reform + WWII isolation + collapse of European competitors = "safe"
business conditions

Post-war boom the direct result of stability provided by New Deal

6. But let's not forget: FDR renews values that had been sorely challenged in last 70
years

America is a place where "no one is left behind"

America is a place of hope and opportunity

America does NOT turn to Fascism or Totalitarianism (as other liberal states did
elsewhere)