

The Great Depression and the New Deal

1929 - 1939

I. Causes of the Great Depression

a. **The Stock Market**

- i. The big **bull market** had reached its peak on September 3, 1929.
 1. On that date, the New York Times average price of industrial stocks reached 452. That figure represented a gain of 342 points from January 1921 and 114 points from January 1929.
- ii. Wall Street's speculative bubble burst on Thursday, October 24, 1929 (which came to be known as "**Black Thursday**"), as waves of panic selling overwhelmed the New York Stock Exchange.
 1. The selling reached a crescendo on Tuesday, October 29. Within less than a week, stocks lost 37 percent of their value.
- iii. At first the **Wall Street crash** appeared to have only hurt the roughly 3 million investors who owned stock.
 1. The United States' vast industrial and agricultural resources were physically undamaged.
 2. But the stock market crash had dealt a severe blow to investors and to banks.
 3. It also revealed serious underlying economic weaknesses.

b. **Overproduction and Underconsumption**

- i. In 1929, American factories produced nearly half of the world's industrial goods.
 1. Rising productivity generated enormous profits.
 2. However, this wealth was unevenly distributed.
 - a. At the time of the crash the richest 5 percent of the population earned nearly one-third of all personal income.
 - b. Meanwhile, fully 60 percent of all American families earned less than the \$2,000 a year needed to buy basic necessities.
 - c. Eighty percent of the nation's families had no savings whatsoever.
- ii. The U.S. economy was simultaneously experiencing **overproduction** by business and **underconsumption** by consumers.
 1. As inventories of unsold goods piled up, stores reduced their orders and factories began to cut back production and lay off workers.
 2. These actions triggered a downward economic spiral.

c. **The Plight of the Farmer**

- i. Many farmers never shared in the prosperity of the 1920s.
 1. Scientific farming methods combined with new trucks and tractors enabled farmers to dramatically increase the yield of crops per acre.
 2. At the same time, American farmers faced new competition from grain growers in Australia and Argentina.
- ii. The global **surpluses** of agricultural products drive prices and farm incomes down.
 1. Between 1929 and 1933 agricultural income plunged by 60 percent.

2. Unable to sell their crops for a profit, many farmers could not pay their mortgages.
3. By early 1933, embittered farm families watched helplessly as banks foreclosed about 20,000 farms a month.

II. Hard Times

a. Downward Spiral

- i. Between 1929 and 1932 all the major indicators documented the same story of economic collapse.
 1. By July 1932 the New York Times Industrial Average plummeted to an all-time low of 58 as investors lost \$74 billion.
 2. During these three years, 86,000 businesses closed their doors and 9,000 banks declared bankruptcy wiping out 9 million savings accounts.
- ii. The burden of hard times fell most heavily on those least able to afford it.
 1. Unemployment rose from just 3.2 percent in 1929 to a staggering 24.9 percent in 1932.
 2. Poverty soon became a way of life for one-fourth of the population.

b. The Dust Bowl

- i. Beginning in 1930, a severe drought hit the **Great Plains**.
 1. The lack of rain combined with unusually hot summers created great clouds of dust from what had once been fertile soil.
 2. Large areas of Kansas, the Texas panhandle, Oklahoma, and eastern Colorado became known as **the Dust Bowl**.
- ii. Agriculture virtually ceased in the hardest hit parts of the Dust Bowl.
 1. Over 350,000 desperate people fled the Great Plains. Called "**Oakies**" because many came from Oklahoma, they loaded their meager belongings into battered cars and headed west along Route 66 to California.
 2. **John Steinbeck** captured the ordeal faced by these proud but impoverished migrants in his powerful novel *The Grapes of Wrath*.
 3. **Dorothea Lange's** poignant photographs portrayed their struggle in California.

III. Herbert Hoover and the Great Depression

a. Hoover's Philosophy of Government

- i. Hoover believed that America's economy was fundamentally sound.
 1. In March 1930 he confidently predicted, "The crisis will be over in 60 days."
- ii. Despite rising unemployment and falling industrial production, Hoover rejected calls for federal action.
 1. He argued that a program of federal relief would violate the Constitution and undermine his cherished values of **rugged individualism** and local voluntarism.

b. **The Reconstruction Finance Corporation**

- i. While Hoover rejected federal programs to help the poor, he did listen to bank executives who pleaded for federal aid.
 1. In early 1932, Congress created the **Reconstruction Finance Corporation (RFC)** to make emergency loans to distressed banks and businesses.
 2. The RFC loaned \$1.75 billion to 7,400 banks, insurance companies, and railroads.
- ii. The RFC went beyond anything the federal government had ever done before.
 1. Its emergency loans helped limit the number of bankruptcies.
 2. However, indignant critics accused Hoover of insisting on rugged individualism for ordinary people standing in breadlines while supporting a "billion-dollar soup kitchen" for distressed bankers.

c. **The Bonus Army**

- i. In the spring of 1932, about 20,000 World War I veterans converged on Washington, D.C., to lobby Congress to pass a bill providing the immediate payment of their promised bonuses from the First World War.
- ii. Supported by Hoover, the Senate rejected the bill. Despite this defeat, many veterans and their families encamped in Washington.
 1. Embarrassed by the presence of so many unemployed men in the nation's capital, Hoover ordered the army to forcibly remove the **Bonus Marchers**.
 - a. His callous treatment of the veterans accelerated Hoover's already sinking popularity.

d. **The Election of 1932**

- i. The deepening depression crippled any chance Hoover had of being reelected,
 1. Sensing victory, the Democrats nominated **Franklin D. Roosevelt**, the popular reform-minded governor of New York.
 2. FDR won an overwhelming victory, ushering in a period of Democratic political dominance that lasted 20 years.
- ii. During the presidential campaign, FDR inspired the Democratic convention by promising cheering delegates, "I pledge you, I pledge myself, to a new deal for the American people."

IV. **The Hundred Days**

a. **The Banking Crisis**

- i. When FDR took the oath of office on March 4, 1933, he boldly declared, "First of all, let me assert my firm belief that the only thing we have to fear is fear itself – nameless, unreasoning, unjustified terror."
 1. Despite Roosevelt's calming reassurance, thirty-eight states closed their banks, as America's economy tottered on the brink of collapse.
- ii. FDR knew he had to restore public confidence in the nation's banking system. While his economic advisors prepared emergency legislation for Congress, Roosevelt proclaimed a four-day **bank holiday**.
 1. On March 9, both houses of Congress passed the **Emergency Banking Relief Act**.

- a. The act provided for reopening the nation's largest and strongest banks while weaker banks first received loans and then later opened under strict Treasury Department supervision.
- iii. On March 12, FDR addressed the nation by radio in his first **fireside chat**.
 - 1. The president explained the steps Congress had taken and reassured the public that "it is safer to keep your money in a reopened bank than under the mattress."
 - 2. FDR's strategy restored public confidence as deposits far exceeded withdrawals.
 - 3. A few months later Congress created the **Federal Deposit Insurance Corporation (FDIC)**, insuring bank deposits up to \$2,500.
 - a. The FDIC underscored the government's commitment to protecting deposits and preventing another panic. (Today each depositor is insured to \$250,000 per insured bank.)
- iv. The banking crisis set the tone for the **New Deal**.
 - 1. FDR opposed making drastic changes.
 - 2. Instead of nationalizing the banks, he strove to reform and revive America's economic institutions.

b. Relief Measures

- i. The banking crisis marked the beginning of a history-making period known as the **Hundred Days**.
 - 1. From March 9 to June 16, 1933, Congress approved fifteen major pieces of social and economic legislation formulated by a group of presidential advisors known as the "**brain trust**".
- ii. Unlike Hoover, Roosevelt recognized that America's millions of unemployed workers needed direct federal relief.
 - 1. The **Civilian Conservation Corps (CCC)** created a jobs program for unemployed young men aged 18 to 25.
 - a. The men lived in camps and worked on a variety of conservation projects in the nation's parks and recreation areas.
 - b. During the nine years of its existence, over 2.5 million workers earned \$30 a month cutting trails, building reservoirs, and planting a shelter-belt of 200 million trees stretching from Texas to Canada.
- iii. The **Public Works Administration (PWA)** contributed to the New Deal's relief program by financing more than 34,000 construction projects at a cost of more than \$6 billion.
 - 1. Between 1933 and 1939 armies of PWA workers constructed about 35 percent of the new hospitals and health facilities in the U.S. and 70 percent of all educational buildings.
- iv. The New Deal relief programs did not end unemployment.
 - 1. But they did restore a sense of national purpose and energy missing since the depths of the depression.

c. Recovery Measures

- i. FDR asked Congress to take unprecedented action to meet the farm crisis.
 - 1. The **Agricultural Adjustment Act (AAA)** proposed to increase farm income by paying farmers to leave acres unplanted.
 - a. For example, the nation's wheat growers removed some 8 million acres of wheat from production.

- i. As a result, the average price of wheat rose from 38 cents a bushel in 1932-1933 to 74 cents a bushel in 1933-1934.
 - ii. Despite the initial outcry over reducing crops at a time when people were hungry, the prices of wheat, corn, cotton, and other basic agricultural products began to rise.
 - ii. The brain trust created a bold program to stimulate industrial recovery.
 1. The **National Recovery Act (NRA)** – which was part of the broader **National Industrial Recovery Act (NIRA)** – encouraged the nation's businesses to draw up codes defining minimum prices, wages, and workers' hours.
 - a. The NRA codes were supposed to end excess competition and restore profits.
 - b. Launched with great fanfare, the NRA soon aroused a barrage of criticism from opponents who denounced it as a formula for "creeping socialism."
 - iii. The **Tennessee Valley Authority (TVA)** contributed to the New Deal's recovery program by authorizing the construction of a system of dams and hydroelectric plants to provide inexpensive electricity and flood control for residents of the impoverished Tennessee Valley.
 1. This ambitious program of regional planning helped to stimulate growth in an area that had been amongst America's most underdeveloped regions.

Making Comparisons → Progressive Reform and the New Deal

- Both the Progressive Era and New Deal reformers supported government action to remedy social and economic problems. However, neither the Progressives nor the New Dealers directly addressed the problems of racial discrimination and segregation faced by African Americans.
- The Progressive Era reformers favored legislative actions by state and local governments. They did not endorse direct federal relief for the unemployed or the poor. In contrast, the New Dealers favored federal legislation to provide jobs and direct relief.

V. The New Deal Under Attack

a. Context

- i. The New Deal helped pull America out of the depths of the Great Depression.
 1. Industrial production slowly rose and unemployment fell from about 13 million in 1933 to 9 million in 1936.
- ii. Despite these gains, full recovery still remained elusive.
 1. A contentious group of critics attacked the New Deal and offered radical plans to revive the economy.

b. Three Radical Critics

- i. **Father Charles Coughlin** was a Catholic priest from Detroit.
 1. Known as the "Radio Priest," Coughlin delivered weekly radio sermons to a nationwide audience estimated at over 30 million people.
 2. Like the late nineteenth century Populists, Coughlin supported nationalizing the banks and coining more silver dollars.

- ii. **Francis E. Townsend** was a retired physician who argued that the New Deal did not do enough for older Americans.
 - 1. Outraged by the sight of three elderly women looking for food in garbage cans Townsend proposed giving everyone over the age of 60 a monthly government check for \$200.
 - a. The recipient had to promise to spend all the money each month.
 - b. Townshend Clubs quickly spread across the country as more than 10 million people signed petitions endorsing the doctor's plan.
- iii. **Huey Long** was a colorful and controversial governor and U.S. Senator from Louisiana.
 - 1. Known as the "Kingfish," Long broke with the New Deal.
 - 2. He then developed his own "**Share Our Wealth**" program promising to tax the rich and guarantee each American a \$5,000 home and an annual income of \$2,500.
 - 3. When a national poll indicated that Long might win strong support on a third-party ticket, he announced his intention to run for President in 1936.
 - a. Then in September 1935, an assassin shot and killed Long on the steps of the Louisiana capitol in Baton Rouge.

VI. The Second New Deal

a. Context

- i. Father Coughlin, Dr. Townsend, and Senator Long drew support from desperate Americans demanding more dramatic changes.
 - 1. FDR recognized that he had to "steal the thunder" from these outspoken critics by embracing additional reforms.
- ii. The 1934 mid-term elections gave the Democrats commanding majorities in both the House and the Senate.
 - 1. "Boys, this is our hour," Roosevelt aide Harry Hopkins exalted. "We've got to get everything we want—a works program, social security, wages and hours, everything—now or never."
 - 2. Led by Roosevelt and Hopkins, the Democratic majorities did enact a series of far reaching programs known as the **Second New Deal**.

b. The Works Projects Administration

- i. Congress enacted the **Works Projects Administration (WPA)** in April 1935.
 - 1. Initially funded with \$5 billion, the WPA launched an ambitious program that included constructing 600,000 miles of highways, repairing 100,000 bridges, and erecting thousands of public parks and recreational facilities.
- ii. The WPA did more than hire construction workers.
 - 1. It also funded innovative projects designed to utilize the skills of artists, actors, and writers.
 - a. For example, the Federal Art Project employed artists to paint murals for post offices, libraries, and other public buildings across America.

c. The Social Security Act

- i. Signed by President Roosevelt on August 14, 1935, the **Social Security Act** answered the Townsend Plan by enacting the New Deal's most far-reaching legislative initiative.
 1. The act established a pension for retired people over the age of sixty-five.
 2. A small payroll tax paid by both workers and employers financed the fund.
 3. In addition, the Social Security Act committed the national government to a broad range of social welfare activities including federal grants-in-aid for old age assistance and aid for dependent children.
- ii. The Social Security Act had important limitations.
 1. It initially excluded farm laborers, domestic servants, and the self-employed.
 2. It also took money out of workers' paychecks at a time when low consumer demand remained one of the main causes of the depression.

d. The National Labor Relations Act

- i. The Second New Deal gave the labor movement a significant victory with the passage of the **National Labor Relations Act (NLRA)**.
 1. Often called the **Wagner Act** for its sponsor, New York Senator Robert Wagner, the NLRA protected the right of workers to join unions and bargain collectively with management.
- ii. The NLRA also created a National Labor Relations Board to supervise union elections and investigate unfair labor practices by employers.

Making Connections → Labor Unions

- The NLRA revitalized the union movement in America. When the Great Depression began, trade union represented only about 3 million workers. John L. Lewis, the head of the United Mine Workers, took the lead in forming the Congress of Industrial Organizations (CIO) to unionize automobile and steel workers. By the end of the 1930s, unions represented 9 million workers, or 28 percent of the nonfarm workforce.
- Membership in labor unions peaked in 1954 when 35 percent of American workers belonged to a union. However, the twin forces of deindustrialization and automation began to substantially reduce the number of industrial jobs. By 2015, union membership stood at just 11.1 percent of all American workers. The largest and most prominent unions today are public sector employees such as government workers, teachers, and police.

VII. The Supreme Court Versus the New Deal

a. The Supreme Court Strikes Down the NIRA and the AAA

- i. In the summer of 1935, the Supreme Court began to deliver a series of decisions overturning key New Deal programs.
 1. In *Schechter v. United States*, the Court unanimously struck down the National Industrial Recovery Act (NIRA) because it gave the federal government powers of economic regulation that could not be justified under the interstate commerce clause.
 2. A few months later the Court also invalidated the AAA.
- ii. These decisions alarmed President Roosevelt.

1. New Dealers feared that the Supreme Court would soon strike down the Social Security Act and the Wagner Act.

b. **The Court-Packing Scheme**

- i. Determined to prevent the Supreme Court from overturning the New Deal, FDR surprised Congress by asking for the authority to appoint a new Supreme Court justice for every member older than 70.
 1. This would allow Roosevelt to appoint six new justices more receptive to the New Deal.
- ii. Both the public and members of Congress opposed Roosevelt's "**court-packing**" bill as a violation of judicial independence and the separation of powers.
 1. Although the Democrats enjoyed large majorities in both houses of Congress, they refused to approve the Court Reform Bill.
 2. The rejection marked FDR's first major legislative defeat.
- iii. Although FDR lost the court-packing battle, he ultimately achieved his goal as the Supreme Court became more receptive to the New Deal.
 1. The Court upheld both the Wagner Act and the Social Security Act.
 2. In addition, several justices retired and Roosevelt appointed nine new members of the Court.

VIII. Consequences of the New Deal

a. **The New Deal and African Americans**

- i. The New Deal did not directly confront racial injustice.
 1. For example, the CCC camps often segregated white and black workers.
 2. In addition, FDR did not risk losing the support of southern Democrats by endorsing legislation banning the poll tax and making lynching a crime.
- ii. Although the New Deal did not mark a turning point in American race relations, it did mark the beginning of important steps benefitting African Americans.
 1. For example, FDR appointed a number of black officials to his administration who became known as the "**Black Cabinet**".

b. **The New Deal and American Politics**

- i. Herbert Hoover's election in 1928 continued the era of Republican dominance that began with the election of McKinley in 1896.
 1. However, just four years later a revitalized Democratic Party led by Franklin Roosevelt brought an abrupt end to the period of Republican dominance.
- ii. The voting blocs and interest groups that supported FDR are known as the **New Deal coalition**.
 1. The New Deal coalition included urban families, labor unions, Catholics, Jews, white Southerners, and African Americans.
 2. These voters formed an electoral majority that enabled the Democratic Party to win the White House in seven of the nine presidential elections between 1932 and 1968.

Making Connections → African Americans and the Democratic Party

- Although the New Deal did not directly confront Jim Crow segregation, it did help African Americans survive in the Great Depression. In the 1936 presidential election, over 90 percent of black voters switched their allegiance to FDR and the Democratic Party.
- The New Deal coalition of black and white Southern voters proved to be fragile. As the Democratic Party began to endorse civil rights legislation in the 1960s, its support among white Southerners steadily eroded. Today, white Southerners are a key component in the Republican Party and African Americans are a key component in the Democratic Party.

c. The New Deal and Women

- i. Many observers noted that women seemed invisible during the Great Depression.
 1. The PWA and other New Deal agencies almost exclusively hired men.
 2. The CCC excluded women entirely, prompting critics to ask, "Where is the she-she-she?"
- ii. Although the New Deal did not directly challenge gender inequality, First Lady **Eleanor Roosevelt** did play an important role in promoting equal treatment for women and African Americans.
 1. In one highly publicized incident, Eleanor Roosevelt resigned from the Daughters of the American Revolution to protest the organization's decision to ban **Marian Anderson**, a world-renowned African American singer, from performing at Constitution Hall in Washington, D.C.
 - a. With Eleanor Roosevelt's support, Anderson gave an Easter Sunday concert on the steps of the Lincoln Memorial attended by an integrated audience of 75,000 people.

d. The New Deal and the National Economy

- i. As 1937 opened, FDR optimistically pointed to several promising signs of economic recovery.
 1. Unemployment fell to 14 percent and industrial output returned to pre-crash levels.
 2. Confident that the economic crisis was receding, Roosevelt reduced funding for New Deal programs.
 - a. These cuts triggered a sudden downturn known as the "**Roosevelt Recession**" of 1937-38.
- ii. Historian William Leuchtenburg described the New Deal as a "halfway revolution."
 1. He argued that conservative Democrats prevented FDR from fully implementing a program of **deficit spending**.
 - a. Advocated by the British economist **John Maynard Keynes**, this strategy called for the government to stimulate the economy by spending more money than it received in taxes.
- iii. The New Deal did not bring about the full economic recovery Roosevelt promised.
 1. The United States finally emerged from the Great Depression when the federal government sharply increased military spending as the nation prepared for **World War II**.

e. **The New Deal and the Role of the Federal Government**

- i. The New Deal accelerated the process of expanding the role of the federal government first begun during the Progressive Era.
 1. Under the New Deal, the federal government assumed the responsibility for ensuring the health of the nation's economy and the welfare of its citizens.
- ii. New Deal programs provided tangible examples of the importance of the federal government.
 1. For example, the New Deal provided legal protection for labor unions, price stability for farmers, electricity for rural Americans, and old age insurance for the elderly.
- iii. As the federal government's role expanded, so did the powers of the presidency.
 1. Under FDR, the presidency became the center of power in the federal government.