Digital History
www.digitalhistory.uh.edu

UNIT 9
THE PROSPERITY AND DEPRESSION DECADES

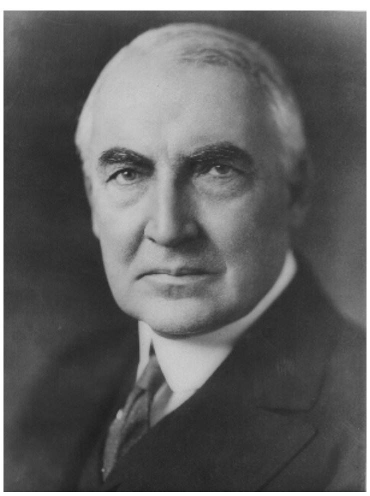
by
Thomas Ladenburg, copyright, 1974, 1998, 2001, 2007
100 Brantwood Road, Arlington, MA 02476
781-646-4577
t.ladenburg@verizon.net

Digital History
www.digitalhistory.uh.edu

Chapter 1
Conservative Policies and Presidents

Throughout American history there have been major changes in public opinion every ten to twenty years. In one era people want to make changes in the relationship of the government to the economy. They elect liberal (sometimes called progressive) presidents and congresses to make these changes. Because liberal leaders seem to get too far in front of the voters they are voted out of office and replaced by more conservative politicians. During the Progressive Era (1900—1920), for instance, liberal presidents, Theodore Roosevelt and Woodrow Wilson used the national government to protect workers and consumers from unregulated big businesses. It seemed that the U.S. government was on a crusade, to reform everything from tenement houses to the consumption of alcohol. Beginning in 1917 President Wilson extended his crusade into foreign policy and set out (in World War I) to "save the world for democracy," to "end all future wars" and advocated the idealistic 14 Points as his blueprint to achieve these objectives. By the time the fighting ended, the American people had grown tired of liberal crusades, rejected the League of Nations and returned to a more conservative foreign policy. Most just wanted to take care of their own businesses and have a good time. The presidents and the congresses they elected in that period (1920—1932) expressed this new—found conservative mood.

Warren Harding — A Conservative President



Warren Harding

Warren Harding *was* the first conservative President elected in the 1920's. Harding was from Ohio, a swing state, in presidential elections. That was one of the reasons party bosses decided to make Warren Harding president of the United States. Another reason was that the most respected men in the Republican Party were opposed because of stands they took on important issues. Harding, with an undistinguished record as a lieutenant governor and senator, had not taken unpopular stands on any issues. But his appearance radiated authority and dignity and he had made few enemies. Businessmen liked him because he was a conservative and would do what they wanted. Republican Party political bosses liked him because he did not know enough about politics to run the country without their advice. They nominated him in a closed convention after a backroom deal, and chose Calvin Coolidge of Massachusetts as his running mate because he had taken a strong stand against a policeman's strike in Boston.

In a speech in Boston in May, 1920, Warren Harding said what the country needed was not heroes but healing, not new government experiments but a return to "normalcy", not "revolutions but restoration; not agitation but adjustment". It mattered little that the word "normalcy" was not in the English language, for the American voter longed to return to the "good old days" of the 1890'a, when President McKinley promised a "full dinner pail" and neither international responsibilities or domestic reforms were the orders of the day. Harding's campaign speeches played on this longing. He plucked a favorite chord by taking a stand for "happiness" as the greatest thing in the world. In his rhapsodies on normalcy, he declared in favor of peace, honesty, private enterprise, Americanism, low taxes, and a balanced budget. He campaigned in the traditional manner by remaining in his Ohio home where he received visiting delegations and played horseshoes. He was in the words of his supporters "no world beater," but he gave voice to a mood most Americans shared; and he was elected over the Democratic ticket of James Cox (also of Ohio) and future President Franklin D. Roosevelt by a landslide with 61 percent of the popular vote.

'The Best Minds'

Warren Harding vas aware of the fact that he really did not know enough to run the country. He therefore tried to get the men with the best minds' in the country to tell him what to do. Some of the country 's best minds made it into the President's cabinet. These included Herbert Hoover, a successful businessman with a distinguished record of public service whom Harding appointed Secretary of Commerce, and Charles Hughes, a former presidential contender and later Chief Justice of the Supreme Court, became Secretary of State. Harding picked Andrew Melon, who had made a fortune with the Aluminum Corporation of America (ALCOA) and resigned from 60 corporate directorships to take a position in Harding's cabinet as Secretary of Treasury.

Hoover, Melon, and most other of Harding's cabinet members were wealthy men who between them managed over 600 million (300 billion, 1998 dollars) worth of property. These men gave America a conservative government, which was dear to the heart of American businessmen from John D. Rockefeller to the corner grocer. In addition to Hoover, Hughes and Mellon, Harding appointed some of his own friends and political associates who had neither the 'best minds', nor the best morals. They included Harry Daugherty, Harding's campaign manager, as Attorney General, and Albert Fall as Secretary of the Interior. Fall was later found guilty of receiving 'loans' of $400,000 for leasing valuable government oil lands at Teapot Dome without competitive bids. Daugherty, was later accused of selling pardons and liquor permits, but acquitted when a jury failed to reach a verdict after deliberating for 62 hours.

Presidents Coolidge and Hoover

Calvin Coolidge

When Warren Harding died in 1923, Americans were just beginning to realize how much money his friends had taken from the Government. But these scandals were soon forgotten as Harding's Vice—President, Calvin Coolidge, took control of the Federal government. Coolidge had attracted national attention as governor of Massachusetts by standing up to the striking Boston police in 1919. He called the National Guard and made sure all who disregarded their public duty were fired. Coolidge's warning that no one had the right to strike against the public good convinced Republican leaders he would help Harding win the election.

As President, Coolidge ran a tight ship. He got rid of the dishonest men in Harding's government and replaced them with honest public servants. He asked Congress to reduce taxes and balance the budget. He vetoed attempts to give money to American farmers and helped reduce income taxes. Coolidge summed up his philosophy of government with his famous statements that 'the business of America is business,' and the less famous statement that "a man who builds a factory, builds a temple." In keeping with his laissez-faire philosophy, Coolidge aspired to be the "least" president that the US ever had and is said to have succeeded in that regard. He proposed no major legislation, was known for his many veto messages, took long naps in the afternoons, made few appointments, and said little to those who managed to see him.

After Calvin Coolidge decided not to run for re-election in 1928, the Republican Party chose Herbert Hoover to round out twelve years of conservative rule. Raised by uncles who could not afford to send him to college, Hoover worked his way through Stanford University, made his first million as a mining engineer before he was forty, and devoted himself to public service thereafter. He gained universal fame and respect before and after World War I for heading organizations providing relief, and serving in the Harding-Coolidge cabinet as Secretary of Commerce. During the campaign Hoover promised to continue the policies of the previous years:

> *When the Republican party came into full power [in 1921] it went at once resolutely back to our fundamental conception of the State and the rights and responsibilities of the individual. Therefore it restored confidence and hope in the American people, it freed and stimulated enterprise, it restored the Government to its position as an umpire instead of a player in the economic game. For these reasons the American people have gone forward in progress while the rest of the world has halted, and some countries have even gone backwards. …*
>
> *By adherence to the principles of decentralized self-government, ordered liberty, equal opportunity, and freedom to the individual, our American experiment in human welfare has yielded a degree of well-being unparalleled in all the world. It has come nearer to the abolition of poverty, to the abolition of fear of want, than humanity has ever reached before. Progress of the past seven years is the proof of it.*[1]

Conservative Policies of Harding, Coolidge, and Hoover

There were few important differences between the conservative beliefs of Presidents Harding, Coolidge, and Hoover. Their ideas and policies therefore are summarized below:

Laissez-faire Policies

Conservatives believed that government should not interfere with the normal operations of the economy. Wages, prices, recessions, inflation, all these problems had a way of resolving themselves. The sum total of every person looking out for what is best for them or their business will result in what is best for everyone. If some businessmen were unsuccessful, or people ended up in poverty, 'not to worry' — it was the natural order of things for the fittest to survive and government should not interfere with the laws of nature.

Examples of these ideas as they were carried out during the 1920's follow:

Veterans' bonuses — Soldiers who fought in World War I were paid only $16 a month. They would have made much more money if they stayed out of the army and continued their civilian jobs. They asked the government to pay them a bonus of $500 dollars, which they could collect when they retire in 1945 to make up for what they lost in their years of service. Harding, Coolidge, and Hoover opposed that plan.

1 Quoted in Richard and Beatrice Hofstadter, Great Issues in American History, Volume III, (Vintage Books, New York, 1982), pp. 331 & 334.

Problems on America's farms —During World War I farmers expanded the size of their farms to produce food to help the allies. When the war ended in Europe food production soon returned to pre—war levels. Deprived of this market U.S. farmers were left with wheat, corn, and other products they could not sell. Because they had borrowed heavily during the war to keep up with demand many farmers could not pay their debts. Banks started to call in farm loans and farmers often had no choice but sell their farms. Farmers led by Congressmen Charles McNary and Gilbert Haugen asked the Federal government to buy the surplus farm products and sell them at a loss to other countries. Liberals supported this plan but conservative presidents Harding, Coolidge, and Hoover opposed it.

Laws regulating competition — Presidents Harding, Coolidge, and Hoover made few attempts to enforce laws against unfair competition, conspiracies to raise prices, and insider trading or similar practices in the stock market. Businessmen, in fact, were encouraged to plan together to avoid waste and unnecessary competition. Despite complaints by liberals the conservative Presidents during the 1920's practiced their laissez—faire beliefs regarding business regulation

Muscle Shoals Project — During World War I, the national government started building a dam at Muscles Shoals on the Tennessee River to make nitrates. These chemicals, used to manufacture explosives, could be used to make fertilizers. After the War, liberals thought the government should complete this dam. The power generated by the dam could be used to make inexpensive fertilizers and electricity for the people living in the area. Coolidge and Hoover opposed this plan. They wanted privately owned businesses, not the government, to build the dam and sell the electricity.

Trickle Down

Another fundamental belief of conservatives was the trickle down principle. They thought what was good for the wealthy and good for business would benefit the entire country because their money would trickle down to the poor in the form of jobs and opportunities to make money.

Examples of these ideas as they were carried out during the 1920's follow:

Tax reduction — the tax rate under the three conservative Presidents was reduced from 73% on the part of taxable incomes which exceed $1,000,000 (about 15 million, 1998 dollars) to 25% on such high incomes. These new rates saved Secretary of Treasury Andrew Mellon and his family about 2 million dollars a year. Not only were taxes for the rich reduced, money was paid back to businesses and people who had already paid their taxes under the old rates. Altogether $3.5 billion was handed back in this way.

Raising taxes on imports — Conservatives raised tariffs shortly after World War I. The Fordney—McCumber Tariff under President Harding reversed the first major tariff reduction since the Civil War. The Hawley-Smoot tariff of 1931 under Herbert Hoover raised tariffs to an all time high. It protected most businesses from all competition from foreign goods. These rate hikes were strongly opposed by liberals.

As we have seen conservative policies from conservative presidents were based on a belief in laissez-faire and trickle down. Conservatives thought these policies would help the whole country, not just businesses and the rich. Your teacher will probably ask if you agree with these conservative ideas and think they would help the country during the 1920's. You may also ask yourself whether similar policies have helped the U.S. during the twenty-first century.

Digital History
www.digitalhistory.uh.edu

Suggested student exercises:

1. As best you can, evaluate the choices Americans made in choosing Presidents during the 1920's and the reasons they made them.

2. On the whole, do the policies followed by conservative Presidents and Congresses during the 1920's seen sound or do they seem sadly mistaken. Explain.

Liberal	Program	Conservative
Favor	Veteran's Bonus	Oppose
Favor	McNary-Haugen Farm Plan	Oppose
Favor	Muscle Shoals Dam Project	Oppose
Oppose	Income tax reduction	Favor
Oppose	Increase protective tariff	Favor

Digital History
www.digitalhistory.uh.edu

Chapter 2
The Roaring Twenties

Many people believe that the 1920's were like a great party — everybody was having fun, making good money, buying stocks, drinking bath tub gin, dancing the Charleston, and driving a new Ford. Of course, we know this is an exaggeration. Most people lived normal, humdrum lives, not the glamorized existence of movie stars and sports heroes. This chapter examines some of the social changes which took part during the 1920's, with an emphasis on the poetry of African-Americans.

Roaring During the Twenties

When most of us think of the 1920's, we imagine people having a good time. As was said in the last chapter, people had gotten tired of making sacrifices and 'saving the world for democracy'. There were wild times for many with much partying and foolishness. The dance craze was the Charlestown and skirts went up to the knees. Drinking alcohol was made illegal by the eighteenth amendment, but rather than reduce drinking, and with only 1,500 Federal agents to enforce the new law, it created huge problems for the police and encouraged organized crime.

Aided by profits from illegal liquor, organized crime came into its own in the 1920's. Names of big time mobsters like Al Capone made the headlines. Everyone knew of the St. Valentine's day massacre in Chicago when seven disarmed members of a rival gang were murdered in an empty garage. The FBI was unable to get Capon for the massacre or the 250 other deaths attributed to his Chicago based gang of 1,000 mobsters. In 1930, Big Crime took in far more money than the Federal government collected in taxes! But the Depression and the end of Prohibition did more to temporarily stop criminal organizations, than the police or FBI, and Capone was arrested in 1931 on income tax evasion and eventually died of syphlis.

American Women

The 1920's was a time of female emancipation. After years of struggle women, won the right to vote in 1920. Daring women, known as flappers, smoked in public, danced till three, and discovered the romantic possibilities of the automobile. Birth control devices such as the diaphragm were widely available, for the first time in history and the pioneering feminists, led by Margaret Sanger advocated their use. Dresses showed the knees and bathing suits were even more revealing. American women participated in professional sports. Helen Willis won tennis championships at Wimbledon, and Gertrude Ederle swam the English Channel. Women writers included Edna St. Vincent Millay, Pearl Buck, and Willa Cather. More women than ever completed high school and attended colleges. But for the vast majority, careers still meant keeping house and raising children. Labor saving household helpers like the refrigerator, washing machine, and vacuum cleaner made the home chores easier for middle class women still confined to their traditional roles. And though women had gained the right to vote, they were unable to amend the Constitution to guarantee themselves equal rights in other areas.

Entertainment

The movies made big news in the 1920's. Over 100 million Americans went every year. They saw Clara Bow the "It" Girl. Women swooned when Rudolph Valentino crossed the silver screen. Men imitated his sideburns and hairstyle, hoping to capture his sex appeal. When Valentino died, crowds lined up for a mile to file past his coffin. Al Jolson sang "Mammie, how I love you," while appearing blackface in *The Jazz Singer*, and from then on a movie was not a movie unless it talked. A hundred million Americans could not be wrong.

The 1920's was a big time for sports — the "Babe" George Herman Ruth set a record of 59 homeruns in a season in 1924, and 60 in 1927. He made more money then the president of the United States. [He claimed to have had a better year (in 1929 than the President.] Jim Thorpe. America's first Olympic hero and the greatest Native American athlete in history, won gold medals for his country and played professional baseball and football as well. Sam Tilden became America's greatest tennis player. Jack Dempsey held the world heavy weight boxing crown between 1919 and 1925. Boxing fans paid over 2.5 million dollars in 1927 to see the highly publicized Dempsey—Tunney fight.

Babe Ruth

Intellectual Currents

. The writers popular during the Twenties generally had little good to say about America. The famous H.L. Mencken opposed democracy because he thought most Americans were ignorant boobs. He said, "all the known facts lie flatly against it." Other writers such as F. Scott Fitzgerald wrote of tired, disillusioned upper-crust Americans. Fitzgerald's best-known book was *The Great Gatsby.* Its hero, Gatsby, pursued a vain and empty dream, in a life that otherwise had little meaning. Sherwood Anderson (in *Winesberg, Ohio*) wrote of the emptiness of the lives of small town Americans. And Sinclair Lewis (in *Babbit* and *Main Street*) criticized the concern of middle class Americans with making money. William Faulkner, wrote of an American Southland inhabited by ghostly figures at war with themselves and society. Ernest Hemmingway wrote of the disillusionment of war in *A Farewell to Arms,* and Eugene O'Neil, perhaps America's greatest playwright, struck notes of despair in *Strange Interlude* and and T.S. Elliot epic poem, *The Wasteland* was equally bleak.

In contrast to the writers of the 1920's, most people of that era believed in conservative ideas. They admired wealth and those who made themselves rich. They read authors who gave tips on making millions by buying stocks. They believed politicians who told them the good times would never stop.

Racism During the 1920's

The 1920s was a time of racial turmoil. Returning Negro soldiers from World War I found they were met by a wall of hostility in the South where many whites feared they might have forgotten their roles as racial underdogs. Led by the revived Ku Klux Klan, Southerners lynched over 70 Negroes in the year following World War I, including 10 returning soldiers. But racial repression was not confined to any one section of the country. A race riot in Chicago started with the stoning of a young black swimmer who had strayed into waters customarily reserved for whites. The riot lasted 13 days and resulted in 38 deaths and over 1,000 homeless families.• Meanwhile the Klan grew into a national organization, claiming over 4 million members by 1924. The Klan's largest chapter was in Indiana – and its program for ethnic hatred was extended to Jews, Catholics, and even to white Protestants deemed guilty of such misbehaviors as sexual promiscuity and habitual drunkenness.

Ending an era of an open immigration policy, the 1920's was marked by a successful attempt to impose racial quotas for immigrants. The National Origins Acts of 1921 and 1924 limited the number of immigrants to a fixed percent of the number of people from that country who were in the US by 1910 and 1890 respectively. These laws directly discriminated against Asians and people from southern and eastern Europe whose countrymen were not in the United States in significant numbers. In 1929, the total number of immigrants allowed to enter the US was reduced to 150,00, and because the law already discriminated against the underrepresented populations, even half of this quota was often not fulfilled. Thus the new restrictions in immigration reduced the number of people coming to the US from a pre-World War I average of 800,000 to about 75,000 per year.•

The 1920's was also marked by a resurgence of religious fundamentalism. Reacting to inroads of modern science and declining morality, fundamentalists located primarily in rural and isolated communities made a concerted effort to assert their religious beliefs. Their legislative efforts focused on prohibiting the teaching of Darwin's theory of evolution because it contradicted teachings of the Bible that God had created Adam in his image and fashioned Eve from one of his ribs. This attempt to legislate a religious interpretation of creation resulted in the arrest and trial of John Scopes, a young biology teacher in the state of Tennessee, for teaching the scientific interpretation. The ensuing trial in a circus-like atmosphere attracted national attention and was lampooned in the 'eastern elite' press as the 'monkey trial'. It ended with Scopes' fine of $100 overturned by a higher court based on a legal technicality. But the trial did not end the struggle between those who interpret the bible literally and those who adopt a more metaphorical interpretation of the scriptures or completely dismiss biblical teachings.

African-Americans and the Harlem Renaissance

While discrimination against black Americans intensified during the 1920's a new pride and self-awareness in the black community was evident in many different ways. One was the flowering of black poetry and music called the Harlem Renaissance. African-American poets such as Langston Hughes wrote of the pain as well as the unique genius of African-Americans. His poetry was read by whites who he helped sensitize to the black experience. Whites also flocked to the famous Cotton Club in Harlem and to other black night-clubs in large cities. Here whites heard the best music in the country played and sung by the men and women who invented jazz and the blues. It was played by musicians such as Duke Ellington and Louis Armstrong, and sung by such greats as Bessie Smith and Ella Fitzgerald. But an indication of the racism that still existed at the time, African-American customers were often barred from attending the same clubs where others of their ethnic background served as waiters and kitchen helpers or sang and played their instruments.

Langston Hughes

• Because black Americans fought back, over one-third of the dead and some of the homeless were white.
• Racial immigration quotas continued until the 1960's.

Digital History
www.digitalhistory.uh.edu

Poetry of the Harlem Renaissance

The meaning of the African-American experience was often not understood by Americans of European and Asian descent. The poems that follow, written by black writers during the 1920's, contain thoughts and images as meaningful today as they were the day they were first written.

No Images
by Waring Cuney

She does not know
Her beauty,
She thinks her brown body
Has no glory.

If she could dance
Naked,
Under palm trees
And see her image in the river
She would know,

But there are no palm trees
On the street
And dishwater gives back no images.

Mother to Son
by Langston Hughes

WELL, son, I'll tell you:
Life for me ain't been no crystal stair.
Its had tacks in it,
And splinters,
And boards torn up,
And places with no carpet on the bare floor.
But all the time
I's been a climbin' on,
And reachin' landin's,
And turning corners,
And sometimes goin' in the dark
Where there ain't been no light.
So boy, don't you turn back.
Don't you set down on the steps
'Cause you find it's kinder hard.
Don't you fall now-
For I's still goin', honey,
I's still climbin',
And life for me ain't been no crystal
stair

To A Dark Girl
by Gwendolyn B. Bennet

I love you for your brownness
And the round darkness of your breast.
I love you for the breaking sadness in your
voice
And shadows where your wayward
eye-lids rest.

Something of the old forgotten queens
Lurks in the lithe abandon of your walk
And something of the shackled slave
Sobs in the rhythm of your talk

Oh, little brown girl, born for sorrow's
mate,
Keep all you have of queenliness,
Forgetting that once you were a slave,
And let your full lips laugh at Fate!

Sonnet to a Negro in Harlem
by Helene Johnson

You are disdainful and magnificent-
Your perfect body and your pompous gait,
Your dark eyes flashing solemnly with
hate,
Small wonder that you are incompetent
To imitate those whom you so despise-
Your shoulders towering high above the
throng,
Your head thrown back in rich, barbaric
song,
Palm trees and mangoes stretch before your
eyes.
Let others toil and sweat for labor's sake
And wring from grasping hand their mead
of gold.
Why urge ahead your supercilious feet?
Scorn will efface each footprint that you
make.
I love your laughter arrogant and bold.
You are too splendid for this city street!

Minstrel Man
by Langston Hughes

Because my mouth
Is wide with laughter
And my throat
Is deep with song,
You do not think
I suffer after
I have held
My pain
So long.

Because my mouth
Is wide with laughter,
You do not hear
My inner cry,
Because my feet
Are gay with dancing,
You do not know
I die.

We Wear the Mask
by Paul Lawrence Dunbar

We wear the mask that grins and lies,
It hides our cheeks and shades our eyes,-
This debt we pay to human guile;
With torn and bleeding hearts we smile,
And mouth with myriad subtleties.

Why should the world be otherwise,
In counting all our tears and sighs?
Nay, let them only see us, while
We wear the mask.
We smile, but, O great Christ, our cries
To thee from tortured souls arise.
We sing, but oh the clay is vile
Beneath our feet, and long the mile;
But let the world dream otherwise,
We wear the mask

If We Must Die
by Claude Mckay

If we must die, let it not be like hogs
Hunted and penned in an inglorious spot
While round us bark the mad and
hungry dogs,
Making their mock at our accursed lot
If we must die, Oh let us nobly die,
So that our precious blood may not be
shed
In vain; then even the monster we defy
Shall honor us though dead!

O kinsmen! We must meet the common
foe!
Though far outnumbered let us show
us brave,
And for their thousand blows deal
one deathblow!
What though before us lies the open
grave?
Like men we'll face the murderous,
cowardly
pack,
Pressed to the wall, dying but fighting
back

Digital History
www.digitalhistory.uh.edu

Suggested student exercises:

1. What is the message of these poets about a. the beauty and grandeur of being black, and b. the pain and difficulty of the black experience. Your answers should include specific phrases from the poems?

2. Try to divide the information in this chapter into two parts – what seems modern and looking toward a better world in the future, and b. what seems old, looking more to recapture or hold on to the past. Give reasons for your choices.

3. Based upon all the information in this reading, can you make a coherent statement about the culture of the 1920's?

Digital History
www.digitalhistory.uh.edu

Chapter 3
Prosperity : Fact or Myth

The irresistible attraction of Andrew Mellon's conservative economic policies was that they seemed to work; good times abounded in the 1920's. True. Farmers and miners did not share in the general prosperity, and business profits increased much faster than wages, but more Americans had more stocks, more debts, and more shiny new gadgets in 1929 than ever before. A middle class suburbanite probably owned a car, a radio, lived in his own house, had savings in the bank, and set money aside to send his children to college. And he probably shared the growing conviction that the United States was about to do the impossible: abolish poverty. Prosperous middle class Americans were not very distressed that farmers weren't prospering — couldn't the farmer migrate to the city? that many people were poor — wouldn't prosperity eventually "trickle down" to them? that stock prices were peaking at dizzy heights — wasn't the market a reflection of confidence in the future?

Time has given the viewer a longer perspective. And economists have provided data not known to the government or the public in the 1920's. In hindsight, was the prosperity of the 1920 only a golden illusion? Were there weak spots in the economy which foreshadowed the Depression that followed? This chapter will help answer these questions.

The New Ford

The date was December 2, 1927. The grand event was the first showing of the brand new Model A Ford, which Americans and Europeans had been excitedly awaiting for eighteen months. In New York 1.1 million people waited eagerly outside the seventy-six Ford showrooms. In Detroit, 100 thousand people stormed a dealer's showroom and in Madrid, nearly 150 thousand Spaniards attended the showing.

1926 Ford "Runabout"

There was good reason for the excitement. Henry Ford had produced the most popular and the cheapest car in the world. For eighteen years his Model T dominated the automobile market. Its sales totaled more than 15 million vehicles. The Model T outlasted other cars by an average of nearly two years and undersold its nearest competitor by over $100. Between 1921 and 1926, it held 40 percent of the market. When Ford abruptly dismissed 100 thousand workers to retool for his new model, Americans waited patiently. Many put off buying another car until they could inspect the new model Ford. Four hundred thousand people had such faith In Henry Ford that they ordered the Model A before it was off the drawing board and on the assembly line.

The Model A was a definite Improvement over the Model T. The new Ford had a three speed transmission in place of the old planetary type which required one foot on the pedal to keep in low gear. The new Ford was lower, faster, and more comfortable. It could develop a top speed of 65 miles an hour with a 45-horsepower engine, compared to the 40 mile-an-hour speed and 40 horsepower of the older car. The Model A was the only low-priced car with hydraulic shock absorbers, which gave it a smooth ride instead of the bone-shaking discomfort of the Model T . While, Ford once said, you could have the old tin lizzy in any color you wished so long as you wanted black, the new Ford was available In Niagara and gun blue, Dawn gray and Arabian sand. The price of the new car was almost the same as the old. New Yorkers were so favorably impressed that on the first day they ordered 50 thousand.

More and Better Cars

In 1919, 6,771,074 passenger vehicles were registered in the United States. Ten years later this figure had leapt to 23,122,100, almost one car per family. Indeed, as surveys showed, many families bought cars before they installed bathtubs. The cars of 1929 were cheaper than those of 1919, averaging $621 — compared to $888; they were also better, faster, and flashier. Production in 1929 reached over 4.58 million vehicles, tripling the 1919 mark. Americans produced seven-eighths of the worlds' cars, exporting one-half million vehicles each year. With an average of 4.6 persons per car, the United States far outdistanced all other nations in automobile ownership.

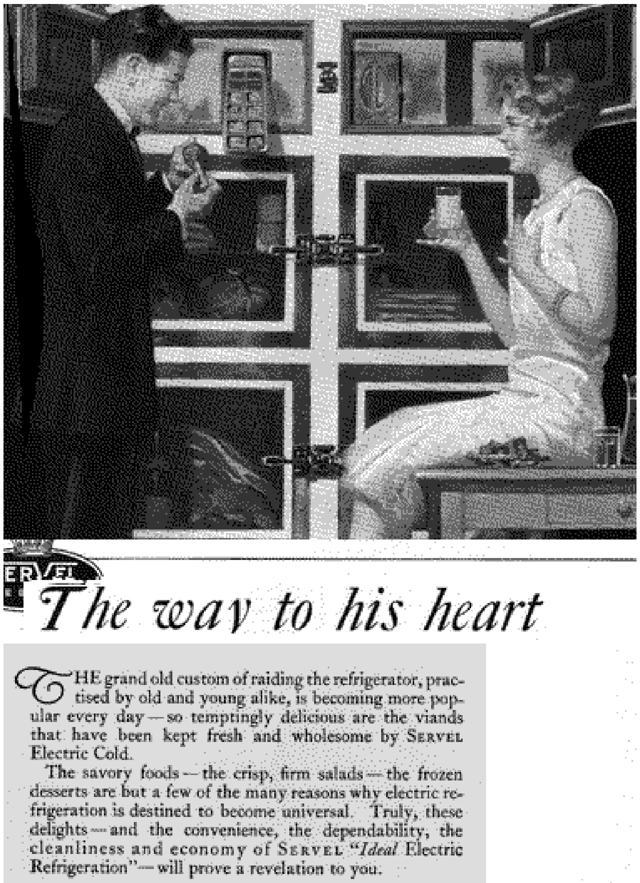
Impact of the Automobile

The shoe industry felt the impact of the automobile — people rode rather than walked, and wore out tires instead of shoes. The railroads found they couldn't compete with cars, buses, and trucks, and began their long decline. But the automobiles did require replacement parts and services. Filling stations came to decorate the landscape, accompanied by billboards, roadside hot dog stands, restaurants, and camp sites. The automobile motorized crime; bootleggers ran whiskey hidden under the seats of old Fords, bank robbers could attempt their getaways in stolen Pierce Arrows, pursued by policemen in hopped-up Chevys.

Americans discovered they could live farther from the center of cities and hastened their long motor cavalcade toward suburbia. Farmers marketed eggs in the backs of their old Model Ts and trucked vegetables and dairy products to the cities. Even courtship patterns were greatly influenced by the automobile; the car replaced the parlor the place where pleading suitors "popped the question," and parents feared for the virtue of their daughters when suitors appeared sporting flashy automobiles.

By 1926, Americans were spending $6 billion yearly on purchases connected with their new motorized toys. Production of automobiles alone accounted for 12.7 percent of all manufacturing done in the country. Motor vehicles consumed 85 percent of our rubber imports, 67 percent of our plate glass, 19 percent of our iron and steel, and healthy percentages of our copper, hardwood, lumber, and lead. Ten percent of the country's labor force was employed In making cars.

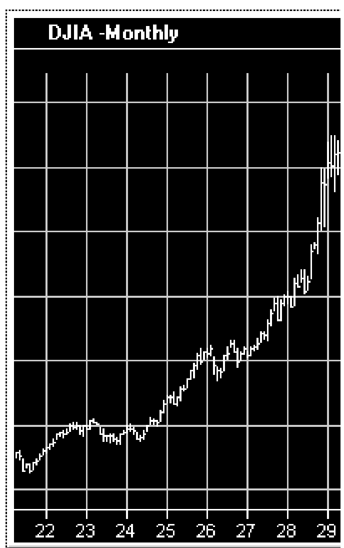
Millions were lavished on developments stimulated by the automobile. State and federal governments spent $1 billion annually building roads; local and city governments contributed half that. Thousands of additional developments were fostered by the automobile. Restaurants, resorts, tourist camps, and vacation spots were built to serve the customers brought by the automobile from all over the country. Small wonder that economists have pronounced the automobile the main prop under the economy.'



Other products, however, also sparked economic development. Primary among these were radios and movies. In 1920, the first radio sets appeared on the market. By 1922, sales totaled $60 million, but the craze had not yet really caught on. Over the next two years, sales more than doubled, and by 1929, Americans had spent 3.4 billion on radios. The radio story was repeated, though less dramatically, by countless other industries. Everywhere one looked new and improved products and gadgets began competing for the dollar. Movie makers glamorized their products by introducing the public to stars such as Douglas Fairbanks and Mary Pickford, wooing all America into new film palaces. The new electric power industry shared in the prosperity, along with rayons, cosmetics, cigarettes, telephones, refrigerators, and airplanes. Here lay the foundations of American affluence.

Production, Profits and Wages

America's claim to prosperity during the 1920's, and the automobile industry's leadership, with a profit rate of 19.7 percent was undisputed. Between 1920 and 1929, national income shot up by $22 billion, from $60 billion to 882 billion. Productivity, the amount produced in each working hour, increased by 25 percent during the 1920's, at a rate of 3.5 percent a year. This gain in the worker's efficiency permitted a 15 per cent per capita gain in real wages, mostly recorded between 1920 and 1923. It also allowed for increased business. profits, a 62 percent rise in corporate earnings, and a doubling of dividend payments.



Dow Jones Industrial Avg.

During the 1920's the average American's income went up by 20 percent. This gave him/her the money to purchase 27 million automobiles, and 3.5 million new homes. Nine million homes were wired for electricity, 6 million phones were installed; 7 million radios were sold. School and college enrollments increased 75 percent. Of course not all of this was paid for; mortgages aside, installment purchases increased by 6 billion. This increase in indebtedness, however, was balanced by a doubling of savings during the 1920'

The Stock Market Jumps

A stock market boom was built on the foundations of the wealth and optimism of the 1920's. Nourished by corporate profits and as well as by government policies, stock prices began rising. Between 1921 and 1925 prices of common stock doubled. But the market had not yet become America's great passion; it did not make news considered worthy of front-page coverage and was content with trading a million shares a day. In 1927, however, speculators started paying earnest attention to the market, and they saw great possibilities. As they started buying heavily, the market shot skyward, with some stocks vaulting ten or twenty points in a single day. By 1928, common stocks averaged three times their 1921 values and still were being bid up. The market, many insiders thought, had reached a permanently high plateau. Brokers, bankers, and even government officials assured the public that stocks were not too high and would keep going up. Over 1 million Americans became financially committed to the market. Many had invested their life's savings; an estimated 600 thousand had borrowed to pay for their shares of stock. Stock sales regularly exceeded 5 million shares a day and the market was often front-page news. Profits were not made on the dividends paid by the corporations but on the increases in the market value of the shares themselves.

So much money was being made on the market that many businesses found it more profitable to buy stocks in other corporations than to expand production. By 1929, common stocks sold for four times their 1921 prices, but no one worried, for the country had been suffering a depression in 1921 and now was riding high on a crest of prosperity. Stock values, it was thought, reflected the condition of the American economy. And, in a way, perhaps they did.

Prosperity is Uneven

The casual observer could uncover other signs of abundance. The number of people paying taxes on incomes of $1 million or more was rapidly increasing. In 1924, only seventy-five men were able to declare million-dollar incomes; three years later, this number had risen to 283. But the gains of the wealthy were not limited to a select class of millionaires. The 1 percent earning most money found their share of income was increasing to about 14 percent during the 1920's; those in the upper 5 percent were recording a greater gain, and by 1929 received over 25 percent of all the nation's income. Indeed, Americans were suffering a distribution problem. The richest 36,000 families had incomes equivalent to the earnings of the poorest 12 million. But these figures did not shock very many, for it was thought the poor were also getting wealthier, though, admittedly at a slower rate.

Yet, many Americans could not help but see the blemishes in this picture. Not everyone was prosperous. Certainly not the farmers, who were buried under a surplus of wheat, cotton, or corn; nor the miners, who found the need for coal slacking while unsold surpluses mounted. Textile and leather workers, too, were overproducing and could not command prosperity wages. Doctors and lawyers in 1929 had average net incomes a bit over $5000. The best-paid city school teachers received $2000 or more, but rural grade-school and many teachers received as little income as workmen, who averaged only $1500. Estimates of a family minimum income necessary for "health and decency" ranged between $1820 and $2080. Not everything glittered in the Golden Twenties. In 1929 1,900 rubber workers in Hartford and New Haven lost their jobs because production was shifted to more efficient factories run elsewhere by the same companies. After eleven months, 13 percent of these men were still looking for work, and 66 percent had to accept lower-paying positions. They could take small comfort in the knowledge they were not alone. Increased industrial efficiency, call it technological unemployment or automation, had eliminated over 3.25 million jobs during the 1920's, or about 900 jobs each day for ten years. Though most displaced workers were eventually able to find employment, this usually meant months of searching and eventually settling for lower wages. Since the working force grew faster than the number of new jobs, looking for work seemed more and more like a game of musical chairs — when the music stopped there just weren't enough places for everyone.

Fact or Myth

In 1928, Herbert Hoover, the Republican presidential candidate, predicted that the United States was nearing the time when it would conquer poverty.

Hoover pointed proudly to the statistics showing that national income was rising and concluded that more Americans were enjoying more of the material rewards of life than ever before. The future looked rosy, and Hoover credited the conservative policies of the past eight years. The nation endorsed his judgment with a resounding vote of confidence in the November presidential election of 1928

Suggested student exercises:

1. Assess the impact of the automobile on American society, including its social as well as its economic impact.

2. Make a list, and put at least four facts in each of the following three categories - one has already been presented in each as an examples.

Was Prosperity Real or False: **Facts showing it was:**		
Real	Not sure what they indicate	False
National income went up by 22 billion dollars	Stock market had gone up 400% in 8 years	People at the bottom were increasingly getting smaller % of national income

3. Based on your analysis does the majority of the evidence prove that prosperity was real and likely to continue, false, the U.S. was heading for a major collapse, or is it simply too difficult to make a prediction? Support your answer.

Digital History
www.digitalhistory.uh.edu

Chapter 4
Rise and Crash

The period between March 1928 and September 1929 is famous in America's economic history. It was the time of the Great Bull (rising) Market. During that time Americans were obsessed with the idea of buying stocks. Some stocks went up by as much as 700%. People invested their life's savings in the stock market. Others borrowed huge sums of money in the hopes of getting rich quick, and many thought it a sin not to. Average people — cab drivers, housewives, construction workers, and waiters, as well as millionaires and brokers, were totally invested in the stock market.

What got people so interested in buying and selling stocks? Why did the stock market rise so rapidly during that period of time? And what caused it to collapse so suddenly 18 months later? These are some of the questions which are at least partially answered in this chapter.

March 3, 1928

The Great Bull Market started on a particular day, March 3, 1928. That was the day Michael J. Meehan and a group of friends decided to make some money by fooling a lot of people. They formed a plan to buy and sell large numbers of shares of RCA (Radio) stock to each other. This arrangement is called a pool. The idea behind their scheme was to cause the price of the stock to rise, unload it on people who did not know what they were doing, and emerge with a great profit. Here is how it worked:

> *At the start of the business day, Meehan sold 200 shares of Radio stock at its opening price of $94.50 (94 1/2). His friend sold the same 200 shares to another friend at $95 a share. The next sale of the same stocks was at $96.00, followed by $97.50, before Meehan bought back his original shares at $98.25 each.*

For those following the ticker tape, the sales just described were recorded as follows:

R.2.941/2; R.2.95; R.2.96; R.2.971/2; R.2.981/4.

Even people who read the ticker did not know that all the buying and selling was done by a couple of friends planning to fool the public. But that is exactly what Meehan and his confederates were doing. And they succeeded. People interested in getting rich quickly saw the price of RCA going up and began to buy large amounts of this stock. On March 12, 1928, Radio went up by $12.00 a share. The next day the price jumped up $18.00. By the end of March, RCA was selling for $195.00 -- a gain of $100 from the opening price of March 3rd. Now, Meehan and his friends sold their shares of RCA and split a profit of $10 million between them. Had they held on to their shares of Radio, they would have realized far more profit. Before the Great Crash of 1929 ended the Bull Market, Radio was selling for 505 dollars a share.

Michael Meehan and his friends got people interested in the stock market. The stock market became front page news, and a speculative fever swept the country. Radio stock, of course, was not the only game in town. Other popular stocks at the time included GM, U.S. Steel, and Goldman Sachs. Some performed as well as Radio — others did even better. All attracted people because they thought they could get rich quickly.

Digital History
www.digitalhistory.uh.edu

Buying on Margin

Once people became interested in buying stocks, they wanted to invest as much money as possible. They wanted to invest money they did not even have!

Smart money managers came up with a plan to help people borrow money to invest in the market. Buy the stock on credit! In those days it was called margin. You put a certain amount of money down — usually about 25% of the price of the stock, sometimes even less. That was the margin. The rest you borrow from a bank. Since the money you borrowed could be called in by the bank at any time it was referred to as, "call money". Using this plan could increase the money you invested and your profits if the market went up.

Suppose you bought a share of Radio stock for $100 in March 1928. Your margin requirement of 25% would mean you invested $25.00 of your own money and borrowed $75.00. If you kept this stock until September of 1929, you could sell it for $500. Your profit would be $400.00. Since you only invested $25.00 of your own money — your profit would be 16 times your original investment, or 1600%!

Paid for stock	**Sold stock for**	**Profit after interest paid**
$94.00	$505	$ $400
Money borrowed	Money Paid back	
$75	$75.00	
Own Money invested	Profit made	% profit:
$25	$400	1,600%

Margin in Reverse

While margin worked its magic when the market went up, it could do a great deal of damage when the market went down. People who bought stocks during the high point of the stock market, would be forced to sell their stocks when the market started going down. The reason is that bankers and brokers would want more money to cover their loans.

As margin encouraged people to buy stocks while the market was rising it would also force people to sell their stocks when the market was falling. And when people sell their stocks, prices come down. Declining prices cause more people to sell their stocks to cover their loans, and this in turn causes prices to go down even further. Thus margin was a time bomb in the stock market ready to go off if something started the stock market on a downward course.

Imagine buying a stock for $500, with 25% of the cost paid out of pocket, and a loan of $375. Should the stock go down to $25, the buyer would have lost $475, over 300% of his original investment.

The Market Heads Down

By September 1929 the stock market was like a sponge full of water. It could not soak up any more stocks. People were no longer buying new stocks — investors were a little jittery. Prices were too high. No new money was coming into the market.

The stock market started going down when British investors began selling their stocks. They were having problems in England and needed the money at home.

In October 1929, the banks began to get worried. Too much money had been lent out on margin. They began to call in loans. This forced people to sell their stocks to cover their loans. Prices began to fall — people were getting jittery. Maybe it was time to sell. Good times could not last forever.

October 23, 1929. That was the worse day to date in the history of the stock market. So many people were trying to sell their stocks that the ticker tape ran 2 hours late. This caused even more panic sales. The brokers spent long hours in the morning trying to balance their books. In account after account, their clients had used up their margin and needed to raise more money.

The next day, October 24th, was even worse than the 23rd. Investors were forced to put blocks of stocks on sale sometimes totaling 10,000 shares at a time. There was absolute chaos on the New York Stock Exchange. Goldman Sachs lost $30. in 2 hours. Other stocks seemed headed for even greater losses.

At this point, a pool of bankers got together to temporarily save the stock market. They bought up thousands of shares of stocks to stop the fall in prices, and restore people's confidence. But all they did was to call a short-lived halt to the collapse in stock prices, and quietly sell their stock before the market collapsed completely. Too many margin accounts had been exhausted by the fall in prices on October 24th, and people had to sell. The huge volume of sales orders came crashing down on the stock market on October 29th. Here is what one writer said about the collapse of the stock market that day:

> *Tuesday, October 29th, was "Black Tuesday" -- the day of the big crash. Tens of thousands of shares of stock were put on sale for whatever they could bring. But there were no buyers! Prices fell, fell, wiping out millionaires and just plain small time speculators alike. Stocks that once sold for $48 a share were now offered for one dollar. Even the best stocks dropped as much as $60.00 a share.*
>
> *As to the cause of the collapse, another observer speculated:*
>
> *It seems probable that the principle cause of the break in prices . . . was not fear. Nor was it short selling. It was forced selling. It was the dumping on the market of hundreds of thousands shares of stock held in the name of miserable traders whose margins were exhausted or about to be exhausted. The gigantic edifice of prices was honeycombed with speculative credit and was now breaking down under its own weight.*

All in all, stocks lost 40 billion of their value. [An equal loss today would be more than 1 trillion dollars]

October 29th was a nightmare that is still remembered today. Fortunes were lost. People who were rich in the morning were broke or worse that night. Life savings were gone.
Dreams and hopes died. Millionaires became beggars. Some jumped out of their office windows; went home and put their heads in their ovens.

October 29th was also the end of an era. The stock market crash took the bloom off the prosperity of the 1920's. In the following years, unemployment jumped from one to thirteen million. Industrial production was practically cut in half. Millions lost their businesses, their homes, and their farms. America entered into the greatest peace-time economic crisis it faced before or since.

Digital History
www.digitalhistory.uh.edu

Just as the stock market had climbed during the prosperity of the 1920's, it fell during the depression that followed. The accompanying charts show just how far prices collapsed. Note in particular the average for the 50 leading stocks — which tells the story of the stocks in the stock market game.

Dow Jones Industrial Average, March, 1927—July, 1932

Stock	Dividends	Price of Stock on:			
	1927	3/3/28	1/3/29	9/3/29	7/8/32
U.S. Steel	7	140	200	260	21
Goldman Sacks	0	40	185	180	4
American Can	2	77	130	180	31
Am Tel & Tel.	9	180	240	300	71
Radio (RCA)	0	94	300	505	17
Avg. 50 Leaders	5	176	240	310	34

Suggested student exercises:

1. Account for the rise and fall of the stock market. Assess the part played by Michael Meehan, margin, uneven distribution of wealth, undue optimism, forced selling, fear, and economic conditions.

2. Make as many comparisons as you can with the stock market of the 1920's and early 1930's to the stock market of the 1990's and the early 2000's.? Do their sem to be more similarities than differences?

Digital History
www.digitalhistory.uh.edu

Chapter 5
The Depression

The stock market crash, which you reed about in Chapter 5, was followed by the worst Depression in U.S. history. Over the next four years millions of Americans lost their job., their savings, their homes, their farms, and their business. In addition to these financial loses, people lost their self—respect, their hopes, and their dreams. Those who lived through the Great Depression will never forget it.

In this chapter you will read several different descriptions of the Depression. As you reed them think of what would happen to you if your parents lost their jobs and you had to rely on a soup kitchen for food and a public shelter for a place to sleep. You should also think about what the Government should do to help the people who lost their jobs and homes, and what it should do to end the Depression.

Things Kept Getting Worse

By late 1929, the year of the stock market crash, workers began to lose their jobs. Just a temporary downturn of the economy, experts said, 'nothing to worry about.' But times got worse.

Prosperity is just around the corner, President Hoover said, but times got even worse.

'These are good times', the great Henry Ford, father of the Model T, said, 'but nobody knows it.' Shortly afterwards, Ford shut down one of his factories.

'The business of manufacturing and distributing goods in this country is on a fine and prosperous base', President Hoover said, but times got even worse.

By 1931, Americans realized that they were in the midst of a big Depression, and thought that times could not get much worse. But, they were wrong.

In 1932. President Hoover said that times had started getting better. But, when the Depression continued to get worse, he blamed the Democrats, claiming it was fear of the Democrat. running the government that caused businesses to shut down.

Just how bad did things get in America? Read the chapter and find out for yourself.

Digital History
www.digitalhistory.uh.edu

How Bad was the Depression?

One way to learn just how bad the Depression was, is to look at the numbers gathered by government economists,

- **13 million or more people were unemployed**, 1 out of every 4 people working in 1929 were now without a job. This figure does not include the millions more who had to work part time and/or take a cut in pay. It also does not include the people who never had a job. Just those who had a and lost it or were not too discouraged to continue looking for one.

- People were forced to work for as little as **5 cents** (1, 2001) dollar**)** an hour
- **Relief payments** in New York City were **$2.39 for a family of 4** per week
- The **GNP** (Gross National Product) fell from **$104 in 1929, to $59 billion** in 1932 (see chart page 31)
- The income of the average farm **family fell from $790 a year to $200** (4,000 2001 dollars) year
- **5,000 banks failed** between 1929—32. Many people lost everything they had saved.
- In late winter of 1933, people began to line up in front of banks to take all of their money out. To prevent this, several states ordered **all banks in the state to close.**
- Price of average share of **stock dropped from $310 in 1929, to $34** in 1932, or by almost 10 times or 1,000%

Did the Depression Make People Angry and Violent?

- Most people accepted the Depression as a fact of life and did their best to survive through hard times. Most people thought that their failure to hold a job was their own fault. Others, however. got very angry and sometimes the anger boiled over. For instance:

- Farmer. in Iowa, Nebraska, and the Dakotas were stopping milk trucks. Angry because they could not sell the milk for enough money to feed their cows, farmers dumped the milk on the road. This is the way they sent a message to the Government and to consumers — no one gets milk until farmers can make money selling it.

- An army of 15,000 unemployed veterans marched on Washington, D.C. With wives and children, they camped out in the capital city. The soldiers wanted the government to give them their bonuses (back pay for money lost while fighting for their country). Payment was to be made in 1945. The veterans were unemployed and broke. They wanted their money immediately. Eventually, President Hoover ordered the army to drive them out. of Washington D.C.

- Children were found in New York City fighting over garbage cans set out from an expensive restaurant.

- In Washington, D.C. a labor union leader warned that the working men in this country would revolt if they did not get help from the government pretty soon.

People Hurt by the Depression

The numbers in the preceding paragraphs do not help us understand the human tragedies behind the statistics. Lets look at some stories of the pain and suffering of people caught up in the Depression:

- The First National Bank of Melrose closed one day. It was rumored that the bank president had run off with his secretary and the bank's money. En front of the bank, Mrs. German sobbed and screamed . The bank held her entire life's savings, more than $2,900. When the bank's books were finally balanced, depositors only received 31 cents for every dollar they had put in the bank. Mrs. German, however, never received her money. The shock of. the bank's closing brought about a complete nervous breakdown. She spent the rest of her life in an insane asylum..

- A little girl could not work in school. Her teacher asked what was the matter. The girl said she was hungry. The teacher told her to go home to get something to eat. 'I cant,' the little girl replied. 'today is my sister's turn to eat.'

- In Youngstown, Ohio hundreds of unemployed and homeless men crowded the town dump at night. Here they slept on garbage and warmed themselves by the city incinerator.

- In Pennsylvania a family of a pregnant woman and three children lived by eating two meals a day. Breakfast in the morning was a watery cocoa and bread and butter. The evening meal was a single can of soup. The older children could not go to school because they did not have shoes. Several families stayed alive by eating dandelions.

- The city of Chicago did not have enough money to pay teachers, so the schools were closed, and teachers weren't paid.

African-Americans and Women During the Depression

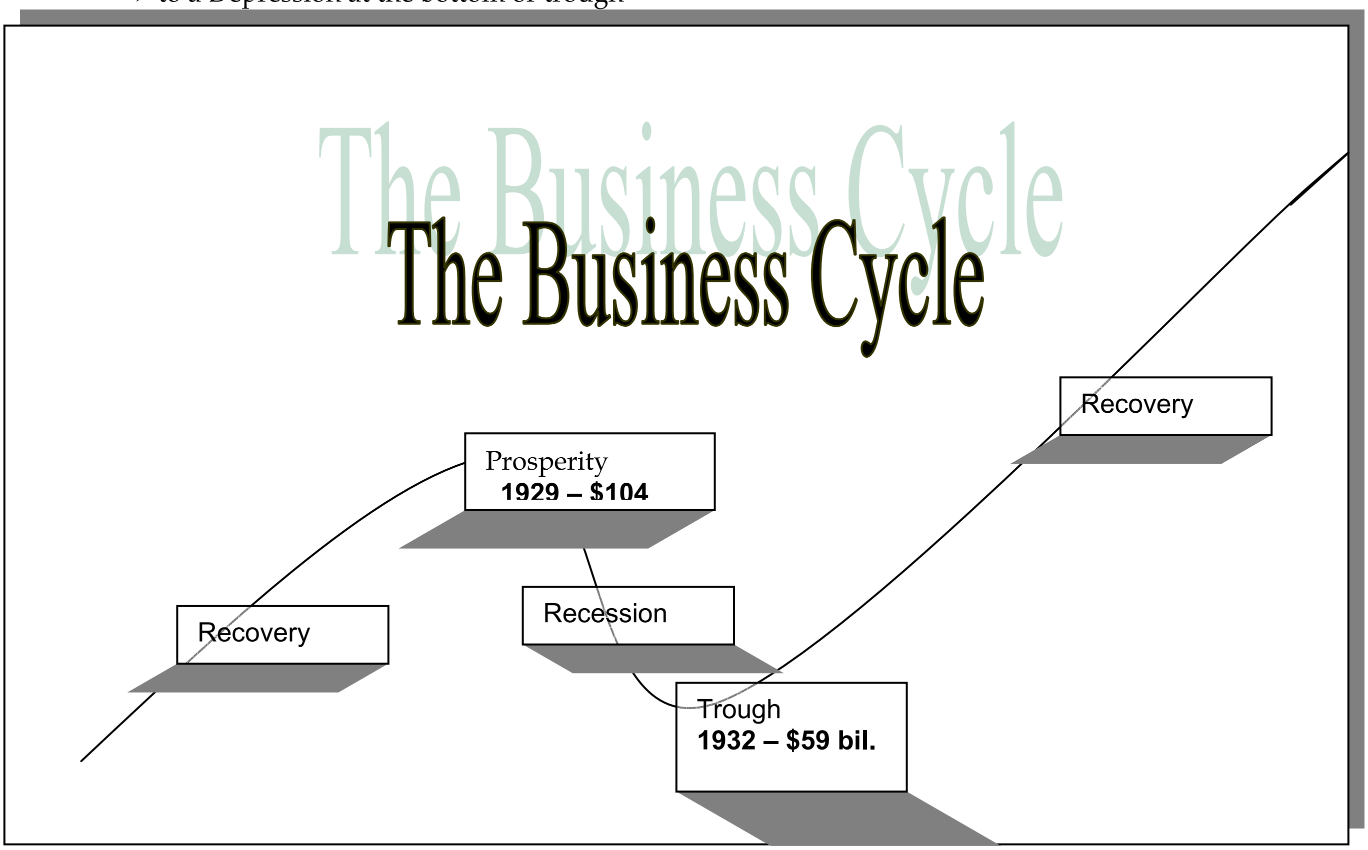
African-Americans suffered more during the Depression than white Americans for several reasons. First, they had not shared in the prosperity of the 1920's and didn't have as far to go to reach bottom. Second, they were in job categories that gave them little security. Many black women, for instance, were maids. One of the first savings made by families with servants was to dismiss the hired help. African-American men who worked in unskilled jobs such as janitors and street cleaners found themselves replaced by whites. In several southern cities a movement began to replace all employed African-Americans with white workers. The unemployment rate among African-Americans was 33%, considerably higher than the unemployment rate of white workers. Hispanics (Spanish speaking Americans) had similar problems to African-Americans.

Women had different problems during the Depression then men. It was not thought proper for married women to work on a job during the Depression that could be done by a man. Women therefore were far more likely to be dismissed from factory and professional jobs (such as teaching and social work) then men. Women salesclerks and secretaries, however, did not lose their jobs, because men were not considered for this kind of work. Furthermore, women played a more important role in the home during the Depression. They sewed their own clothes, canned foods, took in laundry, and sold baked goods. Unable to play their traditional roles as bread winners, men often lost their authority at home as well.

The Business Cycle and the Depression

The Depression of the 1930's was the worst business slump ever in U.S. history. There had, however, been many smaller and shorter depressions. There also have been times like the 1920's when the economy was doing yell, followed by years of economic hardship. These ups and downs of the economy are called the business cycle. Economists who study these events have identified four different points in the business cycle.

- Upward movement called recovery
- leveling off at the top --called the peak or prosperity
- a downward movement called a recession – that could lead
- to a Depression at the bottom or trough



Suggested student exercises:

1. Summarize what you believe are the most important statistics and at least five human interest stories which tell the extent of the Depression.

2. If you were the editor of a major paper, telling what was happening in the United States, how would you present the story. If your teacher requests, create a newspaper report on the Depression — with facts, human interest stories, and editorials on what should be done. Consult with the World Wide Web or a grandparent to get more information.

3. Do you think the causes of this Depression could in any way be linked to the conservative trickle down and laissez-faire policies of the 1920's? Why or why not?

Chapter 6
What Caused the Depression

In this chapter, you will read a short history of one single family business, the Connors Toy Company. Then you will be introduced to economic statistics which, in addition to this story, should help you understand what caused the Great Depression of the 1930's.

Blocks for Tots

After he came home from World War I, Mr. Frank Connors went into business for himself. Using money he saved during the War, he started a toy company that made small building blocks for children ages 3-5. He called his company, *Blocks for Tots*. Business was good right from the start. Connors was making substantial profits which he used to buy more efficient machines. This helped him keep labor costs low and profits high. While doubling production, he was able to reduce his work force from 15 workers to 11. Though he gradually increased wages, his profits grew at a much faster pace.

In the later 1920's, Mr. Connors began to buy stock with his business profits. He speculated on stocks that increased in value quickly, and borrowed money (using margin) to buy more stocks. When the stock market crashed in 1929 the value of his stocks decreased by $5,000, and Connors was forced to sell them to supply his broker with more margin. He lost another $2,000 when his bank was forced to close its doors, and what little money he had left went to pay for the labor saving machinery he could no longer use. Losing all the money he made in business was more than a little bit upsetting. After all, he had done what everyone said he should do. He started a business on his own - he built his business up. He put his money in the stock market which everyone else seemed to be doing too. He made sure to keep enough money in a safe bank account in case his business went sour.

As bad as things were in 1929, they kept getting worse for Connors. He learned that workers who don't have jobs do not buy toys for their kids. The toy business became really slow. There were hardly any new orders, even for Christmas. As much as he hated to do it, Connors fired five workers and cut the wages of those who stayed. Even with a smaller work force, *Blocks for Tots* kept losing money.

At home, Mrs. Connors cut back on the expenses. The family no longer ate meat every day. They stopped going to the movies twice a week. The children no longer got their allowances and Mrs. Connors stopped buying new clothes. The children had to wear 'hand-me-downs' from neighbors.

More Trouble in Toyland

Despite all his efforts to cut corners, Connors' business kept losing money., and in August, 1931, he shut it down. Now unemployed, Connors moved to Richmond, Indiana where he could live on his wife's family farm. At least no one would starve. Connors himself was able to get a low paying job on a government project. His children went to school in Richmond, instead of Chicago. That was just as well. Chicago had run out of money to pay its teachers and its schools had closed.

Why this long story about one single family during the Depression? Because the Connors ' story can help us understand one theory about what caused the Depression, and why it got worse.

What Caused the Depression?

We should remember in the chapter on the prosperity of the 1920's that despite many signs of real economic growth - a serious problem remained. The prosperity was not divided evenly among Americans. Some grew very rich while others had trouble making ends meet.

Those who did not make much money, had less to spend. For instance, the poor could not afford to buy cars. The rich, after buying their own cars, started buying stock in such corporations as General Motors. As a result more cars were being made than the poor could buy and the rich wanted. Faced with lagging sales, General Motors, Ford and Chrysler began closing their factories. This threw more people out of work, resulting in even less money for buying cars, radios, washing machines, houses leading to even more unemployment. There is a saying, 'whatever goes around, comes around'. More and more unemployment led to less buying and, as a result, even more unemployment kept coming around.

The main problem in the 1920's, many economists have come to believe, was that wages did not rise as fast as production. We saw the same thing with the Connors' toy business. When Mr. Connors' plant became more efficient and production increased, Mr. Connors only passed a small part of the new earnings on to his workers. Eventually, the Connors' factory closed down because his workers and millions in a similar position weren't being paid enough to afford to buy expensive toys for their children.

Of course we cannot blame the Depression on the way Mr. Connors ran his business. But, his story points to a serious problem in the American economy. Because they were not paid enough, workers all over the country <u>could not afford to buy back what they were producing</u>. The businessmen who made the profits, at first bought necessities, and then luxuries and, finally, stock. With so much money going into the stock market, prices of stocks rose and kept rising. But, when people bought GM stocks instead of Chevrolets, a lot of unsold cars were left sitting around in showrooms. Soon the dealers stopped ordering cars, factories cut production, and automobile workers were laid off. When these workers could not buy anything, there were even fewer orders and more layoffs. Meanwhile, the stock market collapsed, banks (having often 'invested' heavily in speculative stocks) failed, all hope and confidence also went down the drain, and America slowly sank into the worst Depression in its history.

The Flow of Goods and Services

In the chart below you will be asked to learn a new way of looking at our economy. We see that money, work, wages, and goods and services are constantly moving from producers (the businesses, factories, etc.) to consumers (homes of the buying public).

Digital History
www.digitalhistory.uh.edu

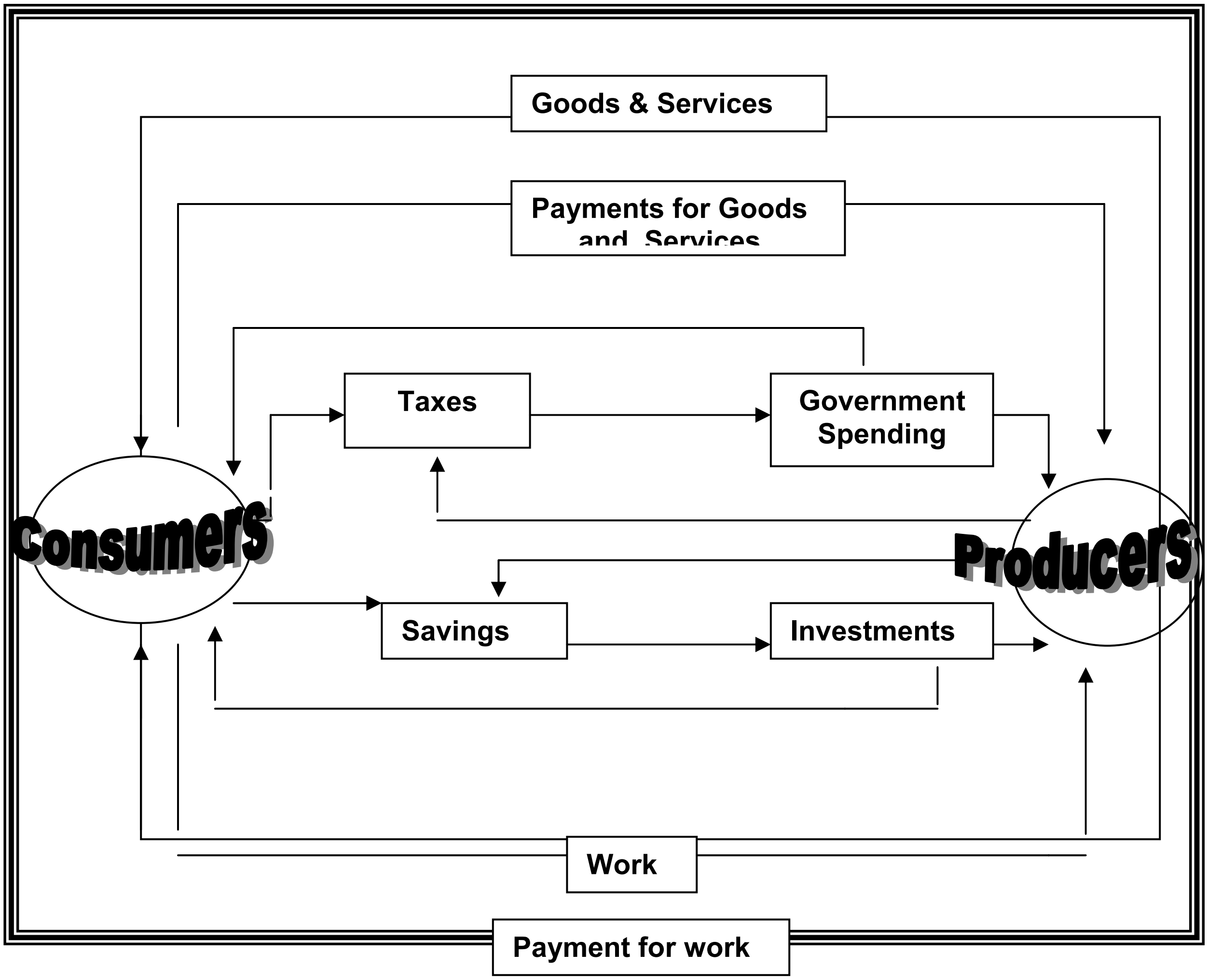


Chart Showing Flow of Goods and Services through an Economy

t any one time money and goods and services circulates through the economic system There is a certain amount of money in the system. When money leaks out into savings or profits, it must be returned to the system. Otherwise, the whole flow of goods and services decreases.

One way of returning the savings is for businessmen to re—invest them back into the economy by buying machines. Another is for the Government to borrow the money and pay people who are out of jobs, or to take the money in form of taxes.

During the late 1920's much money left the cycle of goods and services when it was gambled in the stock market. When the market collapsed, much of this money was taken out of circulation. As people began losing their jobs, they could not buy goods and services, once more slowing down the system's flow.

Digital History
www.digitalhistory.uh.edu

Failure of Purchasing Power to Keep Pace with Production

Different economists have different theories about what caused the Depression. Some say it was overproduction (too much being produced). Others say it was under consumption (people did not have enough money to buy). Others say it was due to the stock market crash, and loss of confidence others said it was due to problems in other parts of the world

Without going into great details, we say that the cause of the Depression had something to do with overproduction and under consumption. More was produced than people could buy. That is overproduction. But, it also was under consumption. People did not have enough money to buy what was produced, and people who had money were using it to buy stocks. When the market collapsed and the banks failed, much of the money that had been saved was lost. That is why we say the cause of the Depression was failure of purchasing power to keep up with production.

Suggested student exercises:

1. If the cause of the Depression was really the failure of purchasing power to keep up with production (and that is just one theory) then how did the following contribute to the problem:

a. wages during the '20's not keeping up with production b. the failure of competition in many cases to reduce prices c. the farm depression of the 20's d. some of the economic and political decisions (i.e. tax cut, not helping farmers, & failure to finance TVA,). made during the '20's.	e. the stock market crash f. poverty in Europe and the collapse of foreign markets g. high tariffs on American exports h. Mr. Connors i. the 12 million poor families who did not have as much money in total as the 36,000 wealthiest families.

2. If the cause of the Depression really was the failure of purchasing power, what should be done to end it?

3. If the cause of the Depressions was not failure of purchasing power to keep up with production, what would you say it was? Explain.

Digital History
www.digitalhistory.uh.edu

Chapter 7
Herbert Hoover and the Depression

Herbert Hoover had the bad luck to be President when the Great Depression started. It was Hoover who had to come up with the programs to stop the Depression. If he failed, the whole country would blame him for their trouble. If he succeeded, many Americans would think he was a great president. You will learn who Hoover was, what he did to end the Depression, and his reason for thinking his ideas would work. You will then be asked whether you think his policies could end the Depression, and you will evaluate Hoover's performance as president.

Who Was Herbert Hoover?

President Herbert Hoover was probably the best prepared *and* most qualified of the three presidents of the 1920's. Born in 1874, he knew poverty from personal experience. His parents died when he was young, and Hoover was raised by two of his uncles. Since they could not afford to send him to college so Hoover worked his way through on his own. One of his jobs took him deep *below* the ground in a coal mine for $2.50 a day. In school, Stanford University, he studied engineering. He was such a good mining engineer that he made a million dollars before he was 40. After that, Hoover thought he had more money than he and his family needed. He decided to use his great administrative skills for the rest of his working life in government service and private charity. During World War I, Hoover ran the official U.S. relief agency helping the suffering people in Belgium. He was called back to the U.S. to head up the Food Administration under the Democrat, President Woodrow Wilson. His work impressed people so much that many Democrats wanted him to represent their party in the next Presidential election. But, Hoover was a Republican and served as a very distinguished Secretary of Commerce under Presidents Harding and Coolidge.

President Hoover

From his position in the cabinet, Hoover spoke for and carried out the conservative policies of Presidents Harding and Coolidge. He gained a reputation as a good organizer and leader, and was a popular choice among Republicans to run for President in 1928. He is much remembered for his acceptance speech at the Republican National Convention, that the policies the Republican Party followed the past eight years would soon end poverty in America. Many American believed him and voted him to a landslide victory of 21.4 million votes to 15 million for the Democrat's Alfred E. Smith.

President Hoover Faces the Depression

Unfortunately, Hoover did not end poverty in the U.S.A. as he predicted. In fact, he had to face the worst Depression in American history. The stock market crashed on October 29, 1929, seven months after Hoover became president. The market kept declining for the rest of that year. Many banks that held bad stocks or made bad loans had to close their doors. Businesses laid off workers; many closed down completely. Millions of people could not find jobs. Thousands of homeless people had no place to go, and no one to help them. Although farmers could not sell surplus crops, hungry people in the cities could not afford to buy food.

In facing these problems, Hoover was guided by principles which he believed all his life. As a student working his way through college, as a successful businessman, and as a leader in government, Hoover was a firm believer in trickle down and an opponent of government coercion of any kind. He believed businessmen should be free to pursue their self interest, and the government should not tell people what to do. He had been taught these ideas in college and had watched America grow while following them. The fact that he himself had made his fortune without government help reinforced Hoover's belief that people should not look for handouts from their government when they were in trouble.

Hoover's anti-Depression policies were based on his fundamental beliefs, and the theories advocated by the best economists at the time. As you read the basic policies Hoover followed, ask yourself whether you agree with his reasons for following these ideas.

Belief in Volunteerism

Hoover thought the Federal government did not have a right to force people to do anything. He thought that using the government to solve basic economic problems, would do more to harm America's liberties than it would help its economy. He therefore relied on people's good will to do things for others. For instance, when the Depression started, Hoover called business leaders to meet him in Washington. He then asked them to keep up production and not to lay off workers or cut wages. He asked neighbors to help one another and not rely on government aid. He thought that people would act on their own in a fundamentally altruistic way to end the Depression

Looking at the Sunny Side

President Hoover believed that it was necessary to maintain a positive outlook. He thought there was nothing fundamentally wrong with the American economy. All that was needed Hoover thought was to restore peoples' confidence in the economy. Once Americans regained their confidence, Hoover believed, stock prices would rise, factories would open, and people would go back to work.

Hoover made many optimistic statements. He told the people that there was nothing basically wrong with the economy. He told them the Depression was a recession and would soon be over. He repeatedly stated his belief that prosperity was just around the corner.

Saving Business

Voluntarism and optimism failed to stem the tide of business collapse. Unwilling to follow laissez-faire, Hoover now asked Congress at least to save the major economic institutions of the land, the banks, insurance companies, railroads, etc. Congress responded by establishing the Reconstruction Finance Corporation, and Hoover later defended this departure from laissez-faire:

> *Disaster has been averted in the saving of more than 5,000 institutions and the knowledge that the adequate assistance was available to tide others over the stress. This was done not to save a few stockholders, but to save 25,000,000 of American families, every one of whose very savings and*

employment might have been wiped out and whose whole future would have been blighted had those institutions gone down.'[2]

No Relief

While Hoover broke precedent to spend $2 billion to save banks and railroads from collapse, he was unwilling to spend any federal money for direct relief. Once the federal government accepted the responsibility of helping America's unemployed, Hoover reasoned, neighbors, communities, cities, and states that had been shouldering this burden would no longer feel obligated to help. Thus government aid would destroy the feeling of neighborly cooperation and self-help so fundamental to the American way of life. Belief in these principles rather than cruelty or indifference to suffering led Hoover to approve a measure providing $45 million to save cattle in Arkansas but oppose a $25 million grant to save Arkansas farmers. As late as May, 1932, Hoover vetoed a public works bill that would have provided thousands of jobs throughout the country.

Balance the Budget

Behind Hoover's reluctance to spend federal dollars on the unemployed lay his belief in the need to keep the budget balanced

A deficit in the budget could only be met with more taxes and more federal bond issues. That makes balancing the budget hopeless. The country also understands that an unbalanced budget means the loss of confidence of our people in the credit and stability of the government and that the consequences are national demoralization and the loss of ten times as many jobs as would be created by this program. Hoover had two more reasons for balancing the budget. He did not think it was fair for people to run a debt that their children and grandchildren would have to pay back. He also believed if the government kept on borrowing money it would be much harder for businesses to borrow and start producing again.

Trickle Down

Hoover's concern with balancing the budget, saving financial institutions, opposing relief, and restoring business confidence were part of his philosophy that revival of prosperity depended primarily on business recovery. His policies were directed at helping business. Prosperity, Hoover believed, trickles down from business men to the public at large. The major job of government, Hoover once said, "was to bring about a condition of affairs favorable to the beneficial development of private enterprise." This had also been the philosophy which had governed the policy makers of the 1920's, and which at that time was

2 Quoted in Broadus Mitchell, Depression Decade: From the New Era Through the New Deal, 1929-41 (New York: Rinehart and Company, Inc.), p. 88.

Digital History
www.digitalhistory.uh.edu

widely accepted by the American people. It is your task here to decide whether the policies which flow from this philosophy are adequate to deal with the problems of the 1930's.

Suggested student exercises:

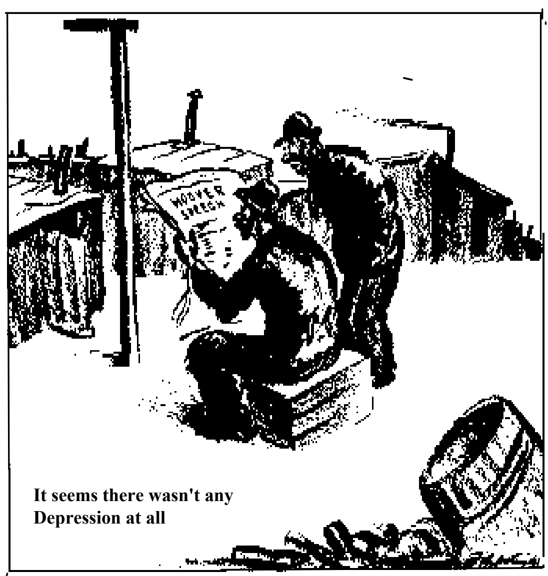
1. Evaluate the reasoning behind Hoover's actions, i.e. cite his reasons and explain their strength and weaknesses. Does it seem that Hoover's policies are likely to end the Depression?

2. Based on what you read in this chapter and what you know about the cause of the Depression, what do you think of President Hoover:

    a. a misguided and perhaps narrow minded man, unable to see that his own policie caused and could not end the Depression

    b. an unlucky man who happened to be there when the Depression started but certainly not to be blamed for it or his failure to end it.

    c. it is unfair to judge Hoover by measuring him to present—day understandings of the causes and the depths of the Depression.



Contemporary cartoon criticizing Hoover

.

Digital History
www.digitalhistory.uh.edu

Chapter 8
New Deal Programs

Congratulations! President Franklin Roosevelt has just asked you to advise him. He wants you to help end the Depression.

Before you give your help -- check out the following statistics. They tell the story of the Depression and what you are up against:

Gross National Product had gone from 104 billion in 1929 to $59 in 1932; average family income from $3,000 to $1,800 a year. Stocks fell from $310 to $34 per share. Farm income was down from $790 to $200 a year; a bushel of wheat that cost 45 cents to grow, was selling for 38 cents. 13 million were unemployed and many people were starving. You, like President Roosevelt have no money to spend to relieve the miseries of the unemployed and their families and to end the Depression – unless you raise taxes, or run up the government's debt.

Suggestions made to solve the country's problems are listed below. Look at them -- see how much they will cost and what they will accomplish. Then decide what to do -- you will have a guide that will tell you how much money you spent and how many people you helped.

Possible Programs for Roosevelt's New Deal

[In figuring value of money use formula ($1.00 in 1933 = $20.00 in 2001), and them multiply by 2 1/2 that number to reflect a 250% increase in population since the 1930's.

You start this exercise with no money to spend to end the Depression unless you decide to raise taxes on the relatively affluent citizens, and/or borrow money from the Federal Reserve Banks.

a. **Tax Increase** - will raise $2 billion (100 billion, 2001 dollars) by taxing the rich. Tax rate on incomes over $25,000 (500,000 2001 dollars) would be raised from 25% to 70%.

b. **Farm Program** - will help 20 million farm families and **increase the price of bread from 5 cents a loaf to 6 cents** ($1.00 in 2001, to $1.20 2001 dollars). Cost to taxpayers $600 million; 30 billion, 2001 dollars. (about 1 of every 4 -- a total of 25 million people were farmers in 1933.

c. **Works Progress** - build a large number of different projects such as roads, bridges, schools, and athletic fields, providing 3 million jobs and costing $4 billion (80 billion 2001 dollars).**You can repeat this program as many times as you want as long as you are willing to borrow the money.**

d. **Stock Buying Program** - Government will buy stocks to help people who lost money in the stock market. Cost, $2 billion (100 billion, (2001 dollars).

e. **Civilian Conservation Corps** - Hire 200,000 young men aged 16-24 to work in woods planting trees and making trails. Cost: $200 million (4 billion, 2001 dollars)

f. **Helping Business** - Lend money to get businesses starting to produce again, cost $1 billion (50 billion, 2001 dollars) - create 500,000 jobs, if trickle down' works.

g. **Unemployment Insurance** - give money (about $7.50 (150, 2001 dollars) per week to unemployed: cost, $400 million (800 million 2001 dollars) for 1 million **You can repeat this program for as many times as you want, as long as you are willing to spend the money.**

h. **Tennessee Valley** - will help provide cheap electricity, lakes for boating, reforestation, flood control and industrial development in the Tennessee Valley, along with 100,000 jobs and cost $1 billion. (20 billion, 2001 dollars)

Suggested student exercises:

1. Before you decide which programs you want to do, state which of the following approaches you want to use and why:

   a. trickle down or trickle up.
   b. laissez-faire or government intervention.
   c. balancing the budget or borrowing money the government does not have.

2. Decide which of the programs you would try. Make sure you have a good reason for choosing the programs you want. Keep track of how much each program costs and how many people it will employ. You will have to borrow money and or raise taxes to finance your programs

3. Use chart on next page or make your own copy. Be sure you give more reasons for the programs you decide to adopt than against them. Write small and legibly, or use extra page.

Digital History
www.digitalhistory.uh.edu

Names:				
Will you follow a policy of trickle up or trickle down? Why?				
Is it more important to limit the amount of debt, or to get people working again as soon as possible? Why?				
Program	$ cost	Reason For or Reason Against	$ spent	# helped
Tax Increase	+2 bil			
Farm Program	600 mil			
Works Progress	4 bil			
Civilian Conservation Program	200 mil			
Help Business	2 bil			
Unemployment Insurance	600 mil.			
TVA	1 bil			
Your ideas: Public housing? College loans? Military buildup?	?			
		Amount of money spent (minus tax cut if you included one) and number people helped		

What do you think you accomplished with your program?

Digital History
www.digitalhistory.uh.edu

Chapter 9
Franklin Roosevelt and the Depression

Great challenges test the metal of leaders and provide the opportunities for eminence. Along with George Washington and Abraham Lincoln, Franklin Delano Roosevelt is commonly considered one of the three greatest American presidents. He successfully led his countrymen through the Depression, and World War II. This chapter tells us something about the man who rose to the challenge of his times, and how he confronted the crisis he inherited from President Hoover.

Franklin Delano Roosevelt

At 52 years of age his father was twice as old as his mother. Raised as an only child, young Franklin grew up in the lap of luxury on the family estate of Hyde Park overlooking the Hudson River, in New York State. Following a custom common to her social class, Franklin's mother Sarah kept him in a dress until he reached the age of five, and had him home-schooled by tutors till he was fourteen. Finally allowed to attend school, Franklin was sent to an elite private institution in Groton, Massachusetts where he earned mediocre grades but was instilled with an upper-class sense of obligation to those less fortunate than himself. His classmates called him "feather duster", but by the time he got to Harvard he had learned the necessary social graces and academic skills to be elected editor to the Crimson, Harvard's prestigious school newspaper. After graduating with a gentlemanly "C" average, Franklin attended Columbia's law school, but took and passed the bar exam without finishing the coursework. By the age of 21 he met and became engaged to a distant cousin, Eleanor Roosevelt, niece of the President with the same name, who gave the bride away three years later. Never very interested in practicing law, Franklin used his considerable charm, connections and family money to get himself elected to the New York Senate at the age of 29. The next year he supported Woodrow Wilson's bid for the presidency, and was rewarded by an appointment as Assistant Secretary of the Navy, a position once held by Uncle Teddy. During the years he spent on this job in Washington, D.C. Franklin earned a reputation as an accomplished administrator, learned a good deal about politics, and forged many valuable political friendships. He also became an ardent supporter of Wilson's programs, including the League of Nations. Roosevelt's outstanding characteristics were recognized in his nomination in 1920 by the Democratic Party to run for the office of vice President alongside presidential candidate James Cox of Ohio. Though the Cox/Roosevelt ticket was soundly defeated, Roosevelt's political skills were widely recognized and he remained a major figure in the Democratic Party.

One of the few pictures Roosevelt allowed taken of himself in a

The next year Roosevelt was struck by two disasters. His affair with his wife's secretary was discovered by Eleanor, casting a serious rift in their marriage. Furthermore, a long and arduous sail at his family's estate, Campabello caused Franklin to contract polio and nearly ended his life. But Roosevelt's courage and determination, as well as Eleanor's devoted care, restored his health sufficiently and he was able to resumed his political career. Though never able to walk again without the support of leg braces and confinement to a wheel chair, Roosevelt was at the Democratic National Convention in 1924, nominating his friend and political ally, New York Governor, Al Smith to run for President. Smith was defeated in this bid in 1924, but with Roosevelt's support won the nomination in four years later. Though Smith, the first major Catholic contender for the White House, was trounced by Herbert Hoover in 1928, Roosevelt carried New York State and succeeded Smith as its governor.

The Great Depression started shortly after Roosevelt became governor. During the four years he served in that office, Roosevelt pushed a variety of progressive measures through the state legislature. His success in New York contributed to his becoming a front runner for the Democratic nomination in 1932. Roosevelt was chosen on the fourth ballot, and made a dramatic appearance at the Convention to give his acceptance speech in which he promised a "New Deal" to the American people. In the campaign that followed, Roosevelt never clarified exactly what he had in mind by his new deal, but was able to make the charges stick that Hoover and the Republican policies of the last twelve years were responsible for the Depression and the President was not doing enough to end it. At the same time Roosevelt blamed Hoover for spending too much money and increasing the US debt. Roosevelt's magnetic personality, strong speaking voice, and tireless campaigning as well as the ineffectiveness of Republican policies led to a resounding Democratic landslide in which Hoover only won six states.

The Banking Crisis

Although Hoover had been repudiated by the American people in November his term of office did not expire until March. During that period the ship of state was churning rudderless through troubled economic waters. As economic conditions continued to decline in a depression that was becoming world-wide, another serious problem presented itself in the US – the banks.

During the relative prosperity of the 1920's, 7,000 s banks failed, for a number of reasons including poor management, bad investments, and lack of adequate regulations. Between 1930-32, another 5,000 banks failed. In February 1933, the National Union Guardian, the largest bank in Michigan was on the brink of collapse. With the Federal government out of funds, President Hoover sent to emissaries to convince the economic hero of the 1920's, Henry Ford, to loan the Guardian enough money to keep it solvent. When Ford refused, the Michigan governor declared a 'Bank Holiday' and temporarily closed all of the state's banks on February 14th. This induced a nation-wide panic during which $900 million was withdrawn from US banks over the following two weeks, and another $800 million was withdrawn over the first four days of March. By inauguration day, March 4, 1933, 21 state governors had closed the banks in their states to save the banks from panicked depositors who feared the bank would run out of money before they could withdraw their own savings.

Roosevelt Speaks

With a banking panic in process, 13 million unemployed, and national income barely half as much as four year's previously, 100,000 people came to witness their new President take the oath of office on a cold and chilly Saturday. They cheered in a subdued manner as the presidential limousine passed by bearing President Hoover and president-elect Roosevelt. The ebullient Roosevelt waved in response, but the dower Hoover, knowing the cheers were not for him, remained glum and silent. He barely uttered a word during the entire ride from the White House to the Capitol steps.

The vast audience in Washington and the millions throughout the land listening on their radios anxiously awaited word from their new leader. Would he mouth more platitudes, or would he acknowledge the plight the nation faced and pledge to truly lead his country? The nation was not disappointed:

> *This great Nation will endure as it has endured, will revive and will prosper. So, first of all, let me assert my firm belief that the only thing we have to fear is fear itself—nameless, unreasoning,*

unjustified terror which paralyzes needed efforts to convert retreat into advance. In every dark hour of our national life a leadership of frankness and vigor has met with that understanding and support of the people themselves which is essential to victory. I am convinced that you will again give that support to leadership in these critical days.

In such a spirit on my part and on yours we face our common difficulties. They concern, thank God, only material things. Values have shrunken to fantastic levels; taxes have risen; our ability to pay has fallen; government of all kinds is faced by serious curtailment of income; the means of exchange are frozen in the currents of trade; the withered leaves of industrial enterprise lie on every side; farmers find no markets for their produce; the savings of many years in thousands of families are gone.

More important, a host of unemployed citizens face the grim problem of existence, and an equally great number toil with little return. Only a foolish optimist can deny the dark realities of the moment.

Yet our distress comes from no failure of substance. We are stricken by no plague of locusts. Compared with the perils which our forefathers conquered because they believed and were not afraid, we have still much to be thankful for. Nature still offers her bounty and human efforts have multiplied it. Plenty is at our doorstep, but a generous use of it languishes in the very sight of the supply. …

The people of the United States have not failed. In their need they have registered a mandate that they want direct, vigorous action. They have asked for discipline and direction under leadership. They have made me the present instrument of their wishes. In the spirit of the gift I take it.[3]

Roosevelt Reopens the Banks

President Roosevelt quickly fulfilled his promise of action. In his office early the next morning he found Hoover's aids had taken pencils and paper with them. Even the buzzer to summon his secretary was disconnected. For a moment paralysis in the president's office symbolized the paralysis of the nation. But a hearty should brought the presidential secretary running. That day Roosevelt summoned Congress for an immediate special session. Thus began the famous "One-hundred Days," which saw more important federal legislation enacted than any similar period. On Monday, March 6, the new president proclaimed a bank holiday, closing all of the nation's banks for four days and temporarily suspending exports of gold and silver. On Thursday, Congress met and passed Roosevelt's emergency bank legislation, sight unseen. It retroactively affirmed the president's authority to close the banks and provided for reopening those judged sound. Meanwhile, Treasury and Federal Reserve officials feverishly reviewed the assets and liabilities of all the banks. On Friday, a presidential proclamation gave the Secretary of the Treasury authority to reopen solvent institutions; Saturday Roosevelt announced how these banks would be opened. And finally, on Sunday, he addressed the nation in the first of his famous "fireside" chats. From his studio in the White House, the president explained his actions of the previous week and appealed to all Americans to take money out of their mattresses and sugar bowls and return it to the banks; the government would see to it that their money would be safe. By Wednesday, March 15, $370 million in gold coins and certificates was returned ($50 million more than had been withdrawn since the first of the year). By the end of June more than $2 billion was safely back in vaults.

3 Franklin D. Roosevelt, The Public Papers and Addresses of Franklin D. Roosevelt, ed. Samuel I. Rosenm,an, vol. II (New York: Random House, 1938), pp. 11, 15-16.

Further legislation established the Federal Deposit Insurance Corporation, which insured bank accounts up to $5,000. Fewer banks failed during the remainder of the Depression than during any one year of the 1920's.

The One Hundred Days

The remainder of Roosevelt's first three months in office were spent dealing with a series of crisis brought about by the Depression and some long term problems which needed solutions. The most immediate crisis was the problem of massive unemployment. Roosevelt proposed a number of solutions. The FERA (Federal Emergency Relief Administration) was created to funnel money to the states so they could rapidly create jobs for the unemployed. The CWA (Civilian Works Administration) provided Federal jobs for the unemployed, and the CCC provided work for young men aged 16-24. The PWA authorized the government to build well-planned major projects such as the Boulder Dam. It was not until 1935 that Roosevelt's evolving strategy on providing a combination of jobs and useful projects was finally settled with the establishment of the WPA (see Chapter 12.)

Problems facing farmers were addressed by passing the AAA (Agricultural Adjustment Act) which paid farmers to hold a per cent of their land out of production, and buying up the surplus at a fair price. This increased the price of farm products and saved millions of farmers from bankruptcy (see Chapter 13.) The TVA (Tennessee Valley Authority) built twenty-one dams along the Tennessee River to provide flood control, cheap electricity, river navigation, recreational facilities, and reforestation, for the 4 1/2 million people living in that area (see Chapter 14). The NRA (National Recovery Administration) guaranteed workers the right to bargain collectively with management, and exempted businesses from anti-trust laws so they could work collaboratively to establish fair codes of competition, including fixing prices, wages, and hours. (see Chapter 16.) Additional legislation protected stockholders from price manipulation and fraud, home and farm owners from premature foreclosures, and wrestled control of the Federal Reserve System from private bankers. Roosevelt even ended prohibition, cut salaries of government employees, and reduced veterans' pensions. Altogether, President Roosevelt sent 15 messages to Congress in one-hundred days and each one of them resulted in passage of legislation he signed into law.

Conclusion

The Depression was not ended in one-hundred days. Despite the endless pieces of legislation, news conferences, and fireside chats, millions remained unemployed and the GNP failed to approach pre-Depression levels. But President Roosevelt had restored a measure of confidence in the American people, and most gave him the opportunity to continue trying to solve the nation's economic problems. His approach to these problems and the enduring questions they raise are the subject of future chapters in the unit.

Suggested student exercises:

1. Compare Franklin Roosevelt's qualifications for the office of President with the qualifications of other presidents that you know.
2. Summarize the major steps taken by Roosevelt to deal with the Depression.
3 Contrast Roosevelt's approach to the Depression with Herbert Hoover's.

Chapter 10
Keynes and the Multiplier

Economists, supposedly, are able to make accurate forecasts, and give valuable advice on dealing with economic problems. When Presidents have problems with the economy, they are supposed to consult their economic advisors. That's' what Herbert Hoover did in 1929, and they told him to balance the budget and not increase government spending.

The worst thing the government could do, Hoover's advisors, economic and otherwise, told him would be to increase the national debt. That would drive up interest rates and wages — which would make it more difficult for private industry to borrow money and expand. Furthermore, increasing the debt would raise doubts that it could be paid off causing a lack of confidence in the Federal government. Finally, raising the debt would be unfair to the children and grandchildren who eventually would have to pay it off.

One economist, an Englishman by the name of John Maynard Keynes, disagreed with those who spoke in favor of a balanced budget. He said the way to get out of the Depression was for the government to spend its way out.

In this chapter you will be asked to decide whether Keynes' unconventional economic advice could bring us out of the Depression.

GNP — C + I + G

Before proceeding in this chapter we need to learn some basic economic terms. Economists measure the change in the country's economic health by comparing the Gross National Product (GNP — now known as Gross Domestic Product — GDP) from one year to another. The Gross National Product is a measure in dollar value of all the goods and services produced in the country during the year. The GNP may be divided into three basic parts, Consumption, Investment and Government spending, as follows:

1. **Consumption** spending (C), which is by far the largest section of the GNP. It consists of the moneys spent by consumers within the following categories:

- **durables** - such as cars, furniture, and washing machines;
- **semi-durables** - such as clothes and light bulbs;
- **non-durable -** such as food, alcohol, and candy; and, services such as private tutors, hair dressers, and baby sitters.

2 **Investment** spending (I) which consists of spending for plants and equipment, including such things as rental cars; private dwellings, and, inventories which are goods on the assembly line in the process of being made, or in warehouses and on store shelves.

3. **Government** spending (G) which includes the money spent by the Federal, state and local governments on such things as education, roads, unemployment relief, and national defense.

The GNP and the Multiplier

In 1929, our GNP was $104.4 billion; in 1930, it was $91.1 billion; in 1932, it was $58.5 billion, or:

Years	1929	1930	1932
Consumption spend	79	71	49.3
Investment spend	16.2	10.3	.9
Government spending	8.1	9.2	8.1
Gross national Product	104.4	91.2	58.5

A closer look at the chart shows that the largest percentage change between 1929 and 1930 was in I (investment spending). In fact, investments decreased by 35 percent, while consumption declined only by 10 percent. By 1932 investment had decreased to $0.9 billion or by 95%, while consumption only decreased to $49.2 billion or by 38%. Economists had long noted that investment spending declines much more rapidly than consumption spending and concluded that depressions may be caused by declines in investment spending.

Careful studies of past fluctuations in business cycles have indicated that each dollar of reduced investment spending will result in a far greater negative change in GNP. Likewise, every dollar of increased investment spending will result in a much larger change in GNP. Here is how it works:

Suppose Henry Ford decided to spend $1,000,000 in expanding one of his factories in Detroit. The money is paid directly to his workers or to other businessmen who will use it indirectly to pay their labor costs, dividends, etc. Studies have shown that people tend to spend about two thirds of their increased incomes. Therefore those receiving the dollars which Ford has pumped into the economy will spend about $666,666 and save the other $333,333. The increased spending will put cash in the hands of grocers, car salesmen, clothing store salespeople, etc. Two-thirds of this money is spent by those receiving it, and this process will continue as follows in an endless chain:

Stage	Amount
1. Ford's increased investment	$1,000,000
2. Money spent by Ford's workers (2/3rds X $1,000,000)	666,666
3. Money spent by grocers, etc. (2/3rds X $666,666)	443,556
4. Money spent by those who received from above (2/3rds X 443,--	295,403
5. Same as stage 4 (2/3rds X $295,403)	196,741
6. Same as stage 5 (2/3rds X $196,741)	131,030
7. Total of all spending so far.	2,733,396
8. All steps from stage 6 to infinity..	266,604
9.Total stages 1 to infinity	3,000,000

You should now understand the importance of business investment to the nation's economic well being. Each additional dollar invested results in as much as a three fold (3 times) increase in GNP!

Savings and Investments

Most economists before the Great Depression assumed that money saved by some individuals would eventually be borrowed by businessmen and invested. This assumption was so widely accepted that it was called a law -- Say's law -- named, after a French economist, J.B. Say.

Yes, economists admitted, in the short run savings may not go directly into investment. But the economy was basically self-correcting. In a recession the rate of interest will drop low enough to get businessmen to borrow money again. Wages will come down because unemployed workers will take whatever job they can get. As more and more people get jobs the recession ends and recovery begins. This leads to more buying, borrowing and employing. According to conservatives, interest rates, wages, and employment would adjust automatically as long as governments do not interfere.

Subscribing to the economic wisdom of his day, Herbert Hoover waited four years for the business cycle to correct itself. During his wait the GNP got lower and lower, unemployment increased, businesses failed, and banks closed their doors and went out of business. The Depression got worse every year!

Keynes Advocates Deficit Spending

John Maynard Keynes was much less optimistic than Herbert Hoover or Say about the power of the economy to correct itself. Keynes had seen no sign that the U.S. economy was correcting itself in any way. He concluded that, contrary to Say, savings are not automatically reinvested. He noted that the decline in the value of stocks and the loss of money through bank failures completely destroyed the savings of millions.

According to Keynes there was both bad and good news. The bad news was that a nation may skid along at the bottom of a business cycle almost indefinitely. Contrary to Say, there may be no automatic way out of a depression.

The good news was that government spending could have the same beneficial multiplier effect as business spending. The multiplier, Keynes claimed, would work just as effectively if the government borrowed and spent money as when businessmen spent it. According to Keynes, a nation could spend its way back to prosperity using government spending (G) rather than business spending (I).

A Summary

Both Say and Keynes would agree on the importance of savings and investments. However, Say assumed investments and savings would always tend to equalize in the long run. The government's job according to Say, was not to interfere with these self-correcting forces. Keynes disagreed and said that government spending can and should make up for decreases in business spending. Keynes believed the Government could and should spend its way out of a Depression and not worry about balancing the budget. The budget would be balanced as soon as the depression ended. Once the economy recovered, government spending would be replaced by business spending. At that point the Government could collect enough taxes to pay off its debt. In short, Keynes, believed that government spending could end depressions and create self-sustaining growth. (Growth that could continue without the government spending more money.)

Could Government Spending End the Depression Decrease the Deficit?

When Keynes' met with Roosevelt he told the President to increase Government spending between 12 to 15 billion dollars (about 550 billion, 2001 dollars) a year. Roosevelt in fact increased Government spending but only by a few billion dollars. When the President decreased Government spending to balance the budget in 1937, (see chart - next page) the GNP declined sharply. The rate of decline was faster than the rate of decline between 1929-33. Roosevelt pumped more money into the economy in 1938 and the GNP went up. Beginning in 1939 the U.S. government began preparing for World War II. During

World War II, Government spending increased sharply and by 1944 the GNP was twice as high as the GNP of 1929.

The National Association of Manufacturers, however, stayed with the conventional wisdom that Government increased spending hurts rather than helps the economy. This businessmen's organization published a report in 1941, restating long standing opposition to deficit spending.

> *Deficit spending has actually discouraged a greater amount of new private spending than it replaced. It has had little effect other than cause a staggering debt burden. The theory that by deficit financing we can achieve economic recovery overlooks the fact that government spending by itself cannot begin to provide the plant and equipment needed to put people back to work, that recovery is dependent on the stimulation of private investment, and that investors must be confident that private enterprise will be permitted to employ capital and labor properly (without government interference).* [4]

One might say that history has proved the manufacturer's association wrong. But it is a far more open question whether deficit spending has ever done what Keynes claimed it would do -- create self-sustaining growth. And as the 5 trillion dollar (125 billion 1930's dollars) deficit of the 1990's proves - it is far easier for the Government to go into debt than it is for the Government to reduce it.

GNP. Expenditures, Deficits, and Unemployment

Year	**Total GNP Billions**	**Total C billions**	**Total I Billions**	**Total G Billions**	**Surplus Surplus or Deficit**	**% Unem-ployed**
1929	104.4	79.0	16.2	8.5	+ 1.2	3.2
1930	91.1	71.0	10.3	9.2	+ .3	8.7
1931	76.3	61.3	5.5	9.2	_ 2.1	15.9
1932	58.5	49.3	.9	8.1	_ 1.5	23.6
1933	56.0	46.4	1.4	8.0	_ 1.3	24.9
1934	65.0	51.9	2.9	9.8	_ 2.9	21.7
1935	72.5	56.3	6.3	10.0	_ 2.6	20.1
1936	82.7	62.6	8.4	11.8	_ 3.5	16.9
1937	90.8	67.3	11.7	11.7	_ .2	14.3
1938	85.2	64.6	6.7	12.8	_ 2.0	19.0
1939	91.1	67.6	9.3	13.3	_ 2.2	17.2
1940	100.6	71.9	13.2	14.1	_ 1.4	14.6
1941	125.8	81.9	18.1	24.8	_ 5.1	9.9
1942	159.1	89.7	9.9	59.7	_ 33.2	4.7
1943	192.5	100.5	5.6	88.6	_ 46.7	1.9
1944	211.4	109.8	7.1	96.5	_ 54.6	1.2

Suggested student exercises:

1. a. Note how much business investment decreased between 1929 to 1932.
   b. Show that the multiplier would explain the effect of reduced investment spending on GNP during that period. c. Based on this analysis, try to explain why Keynes thought Roosevelt should increase G by somewhere between $12 to $15 billion to end the Depression.

4 Fallacies about the Free Enterprise System (National Association of Manufacturers, 1941), p. 26

Digital History
www.digitalhistory.uh.edu

2. Graph changes in G, I, & GNP between 1929 and 1945. Look at your graph and explain what it says about Keynes' economic advice. Does it prove either Keynes or the National Association of Manufacturers correct? Explai

	RELATIONSHIP BETWEN G, I, AND GNP, 1929-45																		
212																			
208																			
204																			
200																			
196																			
192																			
188																			
184																			
180																			
176																			
172																			
168																			
164																			
160																			
156																			
152																			
148																			
144																			
140																			
136																			
132																			
128																			
124																			
120																			
116																			
112																			
108																			
104																			
100																			
96																			
92																			
88																			
84																			
80																			
76																			
72																			
68																			
64																			
60																			
56																			
52																			
48																			
44																			
40																			
36																			
32																			
28																			
24																			
20																			
16																			
12																			
8																			
4																			
0																			
	1929	**1930**	**1931**	**1932**	**1933**	**1934**	**1935**	**1936**	**1937**	**1938**	**1939**	**1940**	**1941**	**1942**	**1943**	**1944**	**1945**		

Digital History
www.digitalhistory.uh.edu

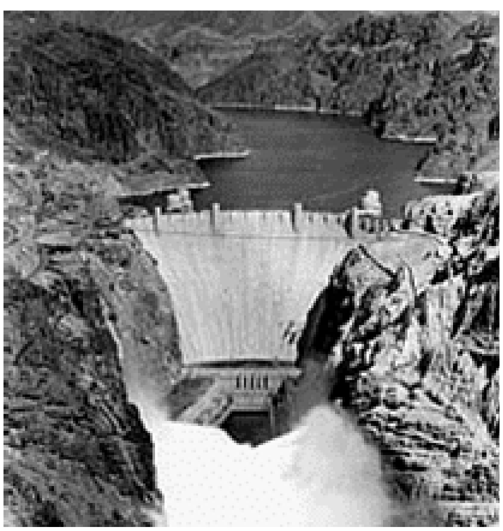
Chapter 11
President Roosevelt and the WPA

When pledging a "new deal" to the American people in 1932, President Roosevelt promised work and other aid for the jobless, though he had no specific plans on how he would accomplish this goal. His subsequent efforts to give direct assistance and work relief were among the most controversial programs of his entire administration. Roosevelt tried many different kinds of programs, as he tried to find the right formula for providing aid to millions of unemployed Americans without wasting billions of dollars on useless projects. Of the numerous programs designed to aid the unemployed, the Works Progress Administration. (WPA) was by far the largest, and the most controversial During the eight hectic years of its existence, the WPA spent over 11 billion dollars, hired more than 8 million workers, and provided relief for an estimated 30 million people, roughly one-fourth of the nation. It became one of the most praised and most criticized of all the New Deal agencies.

The two charges most frequently levied against the WPA were inefficiency and politics. The word "boondoggling" was coined to describe useless projects completed under government supervision; private industry, it was claimed, could do work far more efficiently and not cost the taxpayer any of his hard-earned dollars. Government funds, critics also charged, were used to reward Democrats at the expense of Republicans.

The major part of this chapter examines the charge of inefficiency; careful consideration of this criticism is helpful today when Uncle Sam may again be called upon to provide work for jobless men and women, particularly in city slums where the unemployment rate is often at Depression levels.

From FERA to CWA


Boulder Dam – a PWA project

Harry Hopkins combined the tough exterior of a professional gambler with a social worker's concern for humanity. His detailed knowledge of his field and his irreverent manner won him Roosevelt's respect, and in May, 1933, the president appointed Hopkins to head the Federal Emergency Relief Administration. Hopkins's agency was given $500 million to spend on food, clothing, cash, and medical care for 4 million people. Working with local and state agencies, Hopkins began dispensing money immediately.

Meanwhile, Congress, worried about giving money away, authorized establishing another agency, the Public Works Administration, to build dams, highways, bridges, and other useful projects. To head the PWA Roosevelt chose the honest and self-righteous Harold Ickes, who some claimed personally checked into every penny his department spent.

While Hopkins's FERA was distributing aid and Ickes was carefully scrutinizing plans for each PWA project, more than 13 million Americans still faced a jobless winter in 1933. In response to protest marches of the unemployed, Congress again took action and created yet another agency, the Civilian Works Administration, under direct, Federal control. Roosevelt transferred Hopkins to the CWA where he started the flow of relief money his first day in office. CWA's purpose was providing work, and Hopkins had 4 million on the payroll by January, 1934. To keep their jobs, some workers were required to dig ditches deeper than necessary, some were paid to refill the ditches, and others broke rocks with sledgehammers though machines were available. Hopkins succeeded in his prime objectives, however, by getting millions through the winter and pouring $1 billion into empty pockets. Meanwhile, CWA workers built or repaired over 255 thousand miles of roads, enough to span the world thirty times, and this represented scarcely one-third of their accomplishments. But, with the winter emergency ending, Congress disbanded the CWA in the Spring of 1934. It was hoped that its employees would find jobs with private industry, but few could. Accordingly, Roosevelt devised a more permanent program to care for the unemployed.

On January 5, 1935, Franklin Roosevelt asked Congress for an awesome sum, nearly $5 billion, to help only the unemployed, not those unable to work because of physical handicaps or age. Disabled men and women had always been the responsibility of the community or state in which they lived.

Congressional leaders frowned at Roosevelt's request for money to help the unemployed. Since thirteen states offered no established relief programs liberals opposed depending on the states to support them. Conservatives shouted that $5 billion was just "too damn expensive." Republicans were shocked that Roosevelt failed to provide detailed information on how the money would be spent. But Roosevelt's bill was passed in April, 1935, and the Works Progress Administration came into being.

Both Harry Hopkins and Harold Ickes longed to head the new $4.8 billion agency. Hopkins would spend the money quickly to create as many jobs as possible, as he had under CWA. Ickes, on the other hand, still favored the slow process of building massive public works, as under the previous PWA. Here lay the basis for a vivid conflict of personalities. Ickes is "stubborn and righteous," Hopkins confided to his diary? "He is a great resigner— anything doesn't go his way he threatens to quit." The President favored Hopkins's proposal of small projects employing as many people as possible, and Ickes accepted defeat bitterly:

Roadwork accounted by far for the largest number of WPA projects.

It is becoming ever clearer that Hopkins is dominating this program and this domination will mean thousands of inconsequential make-believe projects in all parts of the country. [5]

Ickes' Public Works Administration continued to do much building, but for better or for worse, Hopkins got the bulk of the money, and his philosophy dominated the administration's employment program.

The WPA In Operation

WPA's object was to provide work on useful public projects. It was not to compete with or replace private industry, and therefore paid less than the private sector. The jobs it provided were designed to help communities which needed the most help, therefore up to 80% of the money for projects came from the Federal government. Since local communities were to have some stake in the project, they were

---

5 quoted in Arthur Schlesinger, Jr., The Politics of Upheaval (Boston: Houghton Mifflin Company, 1960), pp. 345-46.

required to supply the at least 20% of the funds. Furthermore, projects originated in local communities, and had to be approved by the WPA. Projects were designed by local officials to provide the maximum number of jobs to help the unemployed in the vicinity.

Accomplishments of the WPA

From May, 1935, to June, 1943, the WPA spent $11 billion, completing over **250 thousand different projects.** These ranged from. the construction of highways to the extermination of rats; from the building of stadiums to the stuffing of birds; from the improvement of airplane landing fields to the making of Braille books; from the building of over a million privies to the playing of the world's great symphonies. The WPA built or improved enough roads to circle the world twenty-four times; 700 miles of bridges and viaducts were built or repaired. Ten new buildings were constructed with WPA funds for every county in the country; another 80 thousand buildings were repaired. More than 1.5 million illiterate men and women were taught to read and write, the personal narratives of former slaves were recorded, plays were written and produced, and victims of flooding were assisted.

Criticisms of the WPA

Not everyone liked the WPA; a poll showed that 23 percent of all Americans thought it the "worst" of all New Deal programs. Budget balancers feared that government money was being wasted. Unions and industry complained of competition with regular business, while the jobless protested low government wages and an inadequate supply of WPA jobs. African-Americans claimed they weren't being hired, and Republicans complained that government jobs were used to buy votes while conservatives feared the beginnings of a socialistic state. Poking fun at WPA workers became a national pastime.

Most of the complaints, however, came under the heading of the inefficiency of WPA workers.

Efficiency and the WPA

Critics of the WPA, as we have seen, used the word *boondoggling* to describe its activities. It would have been far cheaper, it was argued, to give relief to the unemployed than spend money on useless projects. Private industry, made more efficient by the profit motive, would have done better work for less. Hundreds of examples among the WPA's 250 thousand projects illustrate the boondoggling criticism. In Cleveland, $179 thousand was spent counting the same trees a private contractor was willing to count for $5 thousand. A rat extermination project in New Orleans ended costing $2.97 a rat. Twenty-one thousand dollars was spent placing two thousand street signs in Montgomery, Alabama, and $78,000 to repair a ditch in Denver, Colorado.

Supporters of the WPA countered criticism by claiming that occasional cases of fraud or corruption were the fault of the local governments which, under the law, had to be the project's sponsors. Supporters also said that the notion that private industry could do things cheaper was missing the point — private industry wasn't employing the unemployed. "If we can boondoggle ourselves out of this Depression," President Roosevelt exclaimed, "that word is going to be enshrined in the hearts of people for many years to come."

Re-establish WPA?

Charges of inefficiency and politics bedeviled WPA during its entire eight-year history, as critics of WPA unceasingly demanded its elimination. Congress continued voting money for WPA projects, though never enough to employ all eligible workers, until World War II put an end to the need for relief. Based on WPA's turbulent history, one must ask whether its accomplishments outweighed its faults. In the light of today's needs, one may also ask whether WPA projects should be established to aid residents of inner city slums, or depressed rural areas, where the unemployment rate is often in excess of 3 times the national average, and conditions in some ways resemble those facing most American during the Great Depression. Students may wish to look at their and neighboring communities and speculate what projects – building and repairing roads and/or bridges, constructing athletic fields, public swimming pools, and/or basketball courts, building or repairing affordable housing, community centers, and/or public schools, might benefit these communities and provide constructive employment for the jobless.

Suggested student exercises:

1. Contrast Ickes' and Hopkins' approach to public spending, and explain whose made most sense at the time.

2. How were WPA projects uniquely designed to help the areas most effected by the Depression and not to supplant private enterprise?

3. Do you think the positive achievements of the WPA outweigh the negative. Your answer should include a list of WPA's accomplishments, and an evaluation of the criticisms.

4. Could the U.S, even in a time of relative prosperity, use a program today similar to the WPA?

Digital History
www.digitalhistory.uh.edu

Chapter 12
The Farmer and the Depression

Did you know that in 1933, when millions of Americans could not afford to buy meat the U.S. government bought and turned six million baby pigs into fertilizer? Can you believe that the U.S. government in the twenty-first century spends over 20 billion dollars of the taxpayers money to pay farmers not to plant their fields and to buy up surplus farm products?

Unbelievable as this seems, there are good reasons for reducing the supply of farm products and buying up and storing surpluses. Hopefully, readers will understand the reasons for this policy even though they may not agree with it.

Desperate Conditions on America's Farms

The dust bowl of Oklahoma added to the problems faced by US

The conditions faced by the nation's farmers could be summed up in 1933 in a few words: wheat selling for 38 cents a bushel — the lowest price in 300 years — pork selling at 2.5 cents and cotton at 6 cents pound.

Ask a farmer about wheat at 38 cents a bushel and pork at 2.5 cents a pound. He would tell you there is no way a farmer can make money at those prices. He will tell you 38 cent wheat and 2.5 cent pork means the farmer can't pay neither his taxes or debts, or buy either fuel and clothes. These prices mean that the farmer will become bankrupt - and the businesses depending on him won't do any better.

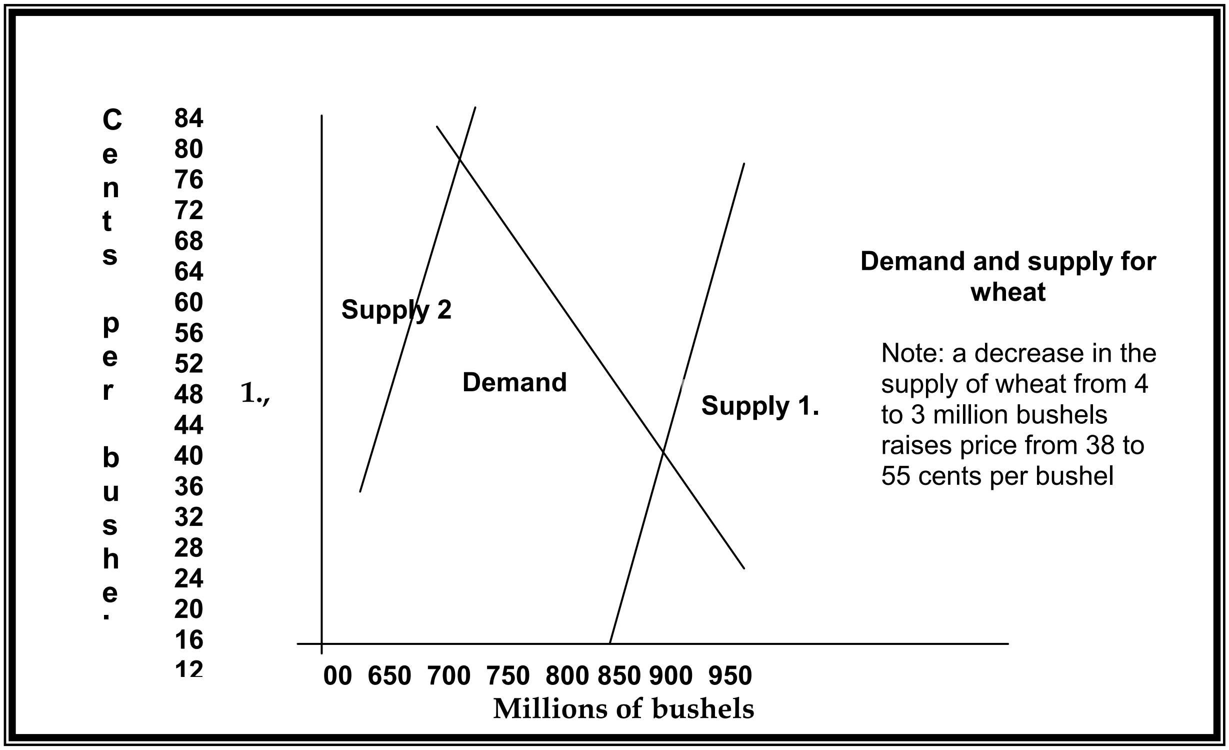
A revolution began as a result of the desperate conditions of the nation's farmers,. To prevent foreclosures farmers in the Dakotas and Nebraska were closing courts and the practice was spreading. In Kansas farmers were stopping trucks, dumping milk over the roads, and ripping the badges off sheriffs who came to restore order. In Iowa Governor Dan Turner sat helplessly in the state capital. He did not dare to call out state troopers to clear state highways, because he faced re-election that year.

Much of the farm problem of the 1930's could be attributed to the law of supply and demand. This law will be explained in this chapter to help students understand the cause of the farm problem and the actions taken by the Federal government to help the farmer.

The Law of Supply and Demand

Supply, refers to how much of a product will be produced and/or sold at any given price. **Demand** for this product refers to how much people will buy at different prices. The price is set at the spot the two curves intercept. (see next page)

Digital History
www.digitalhistory.uh.edu



How the Government Can Help the Farmer

During the Depression, President Roosevelt had to figure out a way to help farmers who were going broke, without angering too many folks who bought bread and paid the taxes for his farm program. Since he could not simply mandate higher prices, Roosevelt had to rely on the law of supply and demand. To increase the price of wheat, Roosevelt could increase the demand for wheat (through foreign sales or food distribution programs), reduce the supply, and/or buy up the surplus.

Demand for wheat would increase as people got back to work and could afford to buy more bread. But that was a long-term solution which would not help much immediately.

To reduce the supply of certain farm products Roosevelt had Congress pass a law allowing him to pay farmers for planting less. This way the supply of many items such as oats, cotton, corn, etc. could be reduced. (Note a reduction in supply is shown by moving the entire supply curve to the left.)

Because of a reduction in the amount of wheat grown from 756 million bushels in 1932 to 526 million bushels in 1934 the price of wheat climbed from 38 cents a bushel toward 84 cents. [*]

* The reason for the reduced supply of wheat was the severe drought creating the famous dust bowl of the 1930's. This disaster, which blew Kansas and Oklahoma topsoil over 200 miles out to sea, forced thousands of 'Okies' to leave their homes in middle America and seek work elsewhere. Their difficulty in finding work was heart rendering, and the subject of a fine novel, The Grapes of Wrath.

Digital History
www.digitalhistory.uh.edu

What was the other Way to Increase the Price of Farm Products?

Another way of increasing the price of wheat and other farm products is called "pegging". Roosevelt could get Congress to pass a law giving him the power to buy wheat from the farmers at 84 cents a bushel. Knowing that the Federal government would buy his wheat at 84 cents, would persuade the farmer not to sell it for anything less. The problem with this method of keeping prices high, however, is that the government would end up with tons of unwanted farm products in its possession which would cost taxpayers tons of money to store.

Thus Roosevelt could raise the price of wheat. Congress could also allow him to use the same method to raise the price of corn, rye, barely, hogs, and other farm products.

But, this still presents a question — how high should the price of wheat be. After all, higher prices for farmers increases food prices for consumers. This arrangement costs the average American whose taxes buy, store, and pay farmers not to plant wheat.

Parity

The US government used the term "parity," to stand for the concept of a fair price for farm products. The way the government decided a particular price was 'fair' was to compare its price to the general price level between 1910—1914, a relatively prosperous period for farmers. For example, if it cost $1.00 to buy a pair of blue jeans in 1910 – 1914 when wheat was selling for 50 cents per bushel and blue jeans cost $1.50 in 1933, wheat should sell for 75 cents a bushel. [By the same logic, with jeans selling in the neighborhood of $20.00 today, a bushel of wheat should sell for $10.00]

The Agricultural Adjustment Act

On May 12, 1933, President Roosevelt signed the Agricultural Adjustment Act. It gave the national government the power to make agreements with farmers raising wheat, cotton, corn, hogs, rice, and tobacco. [Later other crops were included under revisions of the AAA law]. If the farmer wanted to enroll in this program, he had to agree to reduce the number of acres in these crops he'd plant, by not more than 20%. In exchange, the government would pay the farmer a specific sum of money —roughly equal to the value of the crops he did not plant. If the farmer could not sell all his crops on the open market, the national government would buy the unsold portion from him and keep it in storage in case of a bad harvest. Two-thirds of the farmers raising the crop would have to agree to the program, and a county agent would check that each farmer complied. The farmers who refused to be involved in this program would be denied all benefit payments and other forms of federal assistance.

Complications

It was not enough for Roosevelt to come up with this new way of helping farmers. He also had to put it into action before cotton farmers planted their crops. By the time Congress passed the Agricultural Adjustment Act in May, 1933, cotton plants had already sprouted in the South and millions of little pigs had been born. Thirteen million bales of the previous year's cotton had not been sold, and the price of pork was hovering around 2 1/2 cents per pound. With farmers facing financial disaster the government courted political humiliation by paying the farmers to destroy their young cotton plants, and slaughtering the 6,000,000 little pigs before they could grow into price-busting hogs. Approximately 100,00 pounds of pork was saved to be distributed to needy Americans, the remainder was used as fertilizer. Though these measures may be viewed as necessary to save American farmers, critics accused Roosevelt for destroying food at a time that many Americans could not afford to buy meat.

A lot of people in 1933 were angry with the government for killing baby pigs and plowing up cotton. They also opposed the idea of paying farmers not to plant and buying surplus food to raise its price. These agricultural policies were very unpopular among the millions of Americans who could not afford good food for their families. Roosevelt and his followers, however, claimed that his program saved millions who otherwise would have lost their farms and allowed Americans to store a large reserve as insurance against a series of bad harvests. Furthermore, the President's friends argued, it was cheaper to keep a family on the farm than to provide jobs for unemployed workers.

The Farm Program 60 + Years Later

The Federal farm program in the twenty-first century is similar to the one enacted in 1933. Millions of people throughout the world die every year for lack of good food. Thousands in the U.S.A. go to bed hungry every night and can not afford a healthy diet. Nevertheless their government spends billions of dollars every year, to pay farmers not to plant, to buy up crops at 'pegged' prices, and to store what the government bought.

The billions spent by the U.S. government helped less than 3% of the total population in the year 2001 (In 1933, 25% of the population were farmers.) Much of the money pays prosperous farmers $50,000 a year and more not to grow wheat, cotton, corn, and other protected crops. These very large sums should be compared to the payments of a few thousand dollars to small farmers. Despite recent efforts to wean farmers from price support payments, farmers were paid over $25 billion in 2001 to cut back on production, part of a $74 billion program going primarily to the 8% of the farmers who harvest 72% of the crop.

Despite these contradictions in the farm program, it has not been a complete failure. Americans pay a smaller percent of their income on food and eat more of it, than any other nation, and American farmers are the most efficient in the world. More food today is grown on less land, partially because of conservation methods encouraged by the AAA, and far fewer farmers are needed to feed a population more than twice that of the 1930's. Much of the farmers' surpluses are either bought up by the U.S. government and stored in case of a series of bad harvests, or distributed to needy people at home and abroad. But the contradiction still exists — paying wealthy farmers to grow less food in a world plagued by massive hunger and extreme poverty.[•]

Suggested student exercises:

1. How serious was the farm problem and what caused it?

2. Explain the concept of parity and the method proposed by the AAA to achieve parity.

3. What are arguments for and against supporting the nation's farmers in the 1930's and in the 21st century by guaranteeing them a "fair" price, and forcing taxpayers and consumers to pay the bill?

• In June of 2002 President Bush signed a new farm bill that would raise expenditure for agriculture by 82 billion dollars to over 40 billion dollars a year for six years. The program, established primarily to save the family farm provides about 10% of the aid recipients with 60% of the money, and only 40% of the money to the other 90% of all farmers. No farm is allowed to receive over $360,000 – many of the larger farmers receive over $50,000 a year in farm aid, and most of the smaller farmers are fortunate to receive a few thousand a year.

Chapter 13
More Like the TVA?

One of the most bitter arguments between liberals and conservatives has been over the government's role in the economy. Liberals say the government should do the things for people they cannot do for themselves. Conservatives believe the government should allow private enterprise to produce what is needed for the people.

In the 1920's a classic battle between liberals and conservatives was fought over a dam and a nitrates plant the national government built during World War I to make gun powder, which could be converted to make fertilizer. But the war ended before the dam and the nitrates plant were completed. In the 1920's, Henry Ford wanted to buy this dam and factory from the government and use the electricity it produced to build his popular cars. But Congressman George Norris wanted the dam and its electricity used to help all the people in the Tennessee River Valley region.

The issue readers will be asked to decide is whether private enterprise in the person of Henry Ford should get the electricity to make his cars, or if the national government should keep the dam and make inexpensive electricity to sell at cost to the people living in the valley while developing its other resources.

The Tennessee Valley

In the 19th century the Tennessee River Valley was rich in fertile soil and abundant forests. Before the Civil War, however, plantation owners wore out the soil by planting too much cotton and not using enough fertilizer. In the late 1800's, lumber companies harmed much of what was left by cutting down trees with no concern for the effects of deforestation on topsoil.

In the 1920's, the resources of the Tennessee River Valley were exhausted and its 4.5 million inhabitants were a proud but poor people. The majority lived by farming a few acres, grazing some farm animals, and doing a little hunting. There were some villages and even large towns. But, on the most part, the prosperity of the 1920's passed by the Tennessee Valley region. Few people had electricity, and fewer still had radios or machines to wash their clothes. Even running water and indoor toilets were considered luxuries rather than necessities. Occasional roads were paved, but the majority were of dirt and barely passable after a soaking rain.

All this may not be so important, except for two facts: First, there were 4 1/2 million Americans living in that area in 1933 — almost 1 out of every 20 people in the entire country. Second, there were seven other river valley regions where relative poverty could be an argument for massive assistance from the national government.

The Tennessee Valley During World War I

During World War I, the U.S. government needed nitrates to make gun powder which required large amounts of electricity. To supply this need the national government began building a huge dam across the Tennessee River and two factories to make nitrates. But the War ended before the dam and both factories were completed. The issue became what should be done with the dam and factories that cost the government $82 million (the equivalent of over $2 billion in 2001) to build.

Conservatives, who believed in a limited role for government in the economy, wanted to sell the dam. Liberals, who thought the government should be used to help people, wanted the national government to make cheap electricity for the poor people in the Tennessee Valley.

Henry Ford's Proposal to the U.S. Government

In January, 1922, Henry Ford came up with an idea that conservatives liked, He suggested the government complete building the dam and sell it and the nitrate factory to him for $5 million. Ford would pay the government 10% of the completion costs in exchange for the electricity it produced. He would also manufacture inexpensive fertilizer during times of peace. In case of war, Ford would make gunpowder to sell to the government. Ford would sell whatever power remained to businesses, or use it to make automobiles. Ford at one point held out the possibility of building a city 75 miles long.

Ford's plan was a 'trickle down' dream. Sell Ford the plant and the dam, conservatives reasoned, and the money would soon trickle down to farmers and automobile workers, and then to people who bought these cars, and so on.

But there were a few problems with Ford's idea. Ford expected the government to sell a dam and plant that cost $82 million to build for $5 million plus 10% of the dam's completion costs. Furthermore, Ford did not guarantee that this 75 mile long city was anything more than a pipe dream.

Enter George Norris: A trickle-up Liberal

Senator George Norris did not want one man to control an entire region of the country. He did not want to sell Ford, one, of the richest men in America, two factories and a dam that cost more than $82 million to build for $5 million. (Ford claimed the dam and factories were so expensive to build because the government is not as efficient as private enterprise). Norris had another reason he did not want Ford to get the plant and dam. He was a trickle up liberal who wanted the U.S. government to directly help the people living in the Tennessee Valley.

Senator Norris won the first battle for the Tennessee. He gave Ford such a hard time that Ford withdrew his offer. Then Norris tried to get his own bill for government development through Congress. He did but first Presidents Coolidge and then President Hoover vetoed his bill for development of the Tennessee River Valley.

Hoover's Veto Message

In his veto message Herbert Hoover intoned:

> *I am firmly opposed to the government entering any business, the major purpose of which is competition with our citizens ...For the federal government to go out to build up and expand a manufacturing business is a destruction of equality of opportunity of our people; it is the negation of the ideas on which our civilization is based.*

I hesitate to contemplate the future of our institutions, of our country if the preoccupation of its officials is to be no longer the promotion of justice and equal opportunity, but is to be devoted to barter in the markets[6].

Roosevelt's Speech for the Tennessee Valley

Hoover's veto stopped Norris for the time being. However, Hoover lost his bid for re-election in 1932. The next President, Franklin Roosevelt, announced his plans to develop the Tennessee River Valley during his first 100 days in office. These plans called for far more than the completion of a dam and the disposal of a nitrate plant. Roosevelt called for the development of the. entire river valley area:

It is clear that the Muscle Shoals development is but a small part of the potential usefulness of the entire Tennessee River. Such use, if envisioned in its entirety, transcends mere power development; it enters the wide fields of flood control, soil erosion, reforestation, … and distribution and development of industry. In short this power development of war days leads logically to national planning for a complete river watershed involving many states and the future lives and welfare of millions.

I, therefore, suggest to the Congress legislation to create a Tennessee Valley Authority, a corporation clothed with the power of government but possessed of the flexibility and initiative of private enterprise. It should be charged with the broadest duty of planning for the proper use, conservation and development of natural resources of the Tennessee River area for the general social and economic welfare of the nation. This Authority should also be clothed with the necessary power to carry these plans into effect. [7].

Conclusion

You have just read arguments for and against the U.S. government developing the entire Tennessee River Valley. Liberals like Norris and Roosevelt thought the government should be used to make the country a better place for all people to live. Conservatives like Henry Ford and Herbert Hoover thought that the government competing with business would destroy the spirit which built America — private initiative and free enterprise.

Suggested student exercises:

1. State the argument that Henry Ford should be allowed to develop the Tennessee-Valley Area and Norris's objections, <u>or</u> state the argument that the U.S. government should develop it and Hoover's objection.

2. Read the epilogue part of this chapter and point to the facts that support (or refute) your opinion about the government rather than private interests developing areas such as the Tennessee Valley.

---

6 . Congressional Record. 71st Congress, 3rd Session, pp. 7046—7048,
7 Franklin Roosevelt, The Public Papers and Addresses of Franklin Roosevelt, ed. Samuel I. Roseman, Vol II, (New York: Random House, 1938) p 122.

Digital History
www.digitalhistory.uh.edu

Epilogue

The Dam named after Senator Norris

Congress voted to establish the Tennessee Valley Authority less than 10 weeks after Roosevelt proposed it. The agency had wide range of powers to conserve and develop the Tennessee River Basin and its surrounding territory for the betterment of the whole country. Thirty years later the TVA could boast of the following accomplishments:

- Building 16 huge dams in 7 years and a total of 21 altogether. Two of the dams were built in a record time of 14 months. The tallest dam was 46 stories high.

- Building lakes 3/4ths the size of Rhode Island in back of the dams. These lakes are still used by tens of thousands of people each year for camping, swimming, fishing, and other forms of recreation.

- By 1964 collecting almost one—half a billion dollars through sale of electric power to individuals and businesses.

- By 1964, saving a total of $316 million dollars through flood control.

- Digging a 9 foot deep channel running the 650 mile length of the Tennessee River for the purpose of navigation, saving shippers $282 million by 1964.

- Producing millions of tons of inexpensive fertilizers and passing the savings on to farmers in the Tennessee Valley.
- Supplying 180,000 customers with cheap electric power —and proving that regular electric companies could make more money, because of increased use, on a nation wide basis by charging less for their electricity.

A Good Example

One of the many stories of TVA gives a very good example of what government can do to help people and private enterprise.

Before TVA started producing fertilizers, it tested out several different kinds. This way, the government got to know what kind of fertilizers were best for the soils in this area.

Since many farmers in the Tennessee Valley had never heard of fertilizer, TVA set out to show them how it could improve their crops. Many farmers were given free fertilizer, if they promised to keep careful records of its effects on their crops. In this way doubters among the local farmers could find out just how much fertilizers can help them.

Digital History
www.digitalhistory.uh.edu

The farmers also needed a new crop they could sell for cash. TVA officials came up with the idea of planting strawberries. But strawberries could spoil very quickly. Therefore, the TVA technicians invented a new method of freezing them so they do not lose their flavor. A private business bought the right to produce these new freezers, and sell them to farmers. Now farmers had a new cash crop and private industry made money by selling freezers. In addition, many businesses moved to the Tennessee Valley basin to take advantage of lower electric rates, leading to the creation of jobs in this area.

The Other Side of the Story

There usually are at least two sides of a story. Read and try to evaluate the following arguments made by people opposed to TVA:

1. Flood control — It is true that TVA prevented flooding. But it also flooded a great deal of land when it created all those lakes in back of their dams. The total amount that TVA did was to flood out an area 3/4ths the size of Rhode Island. The cost of the flood control was $3.5 million in interest on the money borrowed to build TVA. Yearly damage caused by floods before TVA was only $1.5 million. The value of the crops lost due to the permanent flooding was $13.4 million in one year, 1941 — and much more in other years.

2. Electricity — Yes, there was cheaper electricity for customers in the Tennessee Valley. But, one of the reasons the electricity was cheaper was that the Tennessee Valley Authority did not have to pay taxes. TVA did not have to pay high interest rates on the money it borrowed. And it could charge the expenses for producing electricity to funds set aside for building the dam. Government competition with private companies was not fair (at least to the electric power companies in the Tennessee Valley), and drove a number of them out of business.

"JONAH," 1938!

3. Coal and nuclear energy — By 1964, about 3/4ths of all the electricity made by TVA came from coal generators, and not from electricity made by TVA dams. Over the past 20 years, TVA has begun to produce nuclear energy, and its plants are among the worst run in the country.

4. The Danger of too much Government —David Lilienthal. director of TVA for many years, admitted it could be really be dangerous. He said that if TVA were controlled by selfish politicians electricity would only go to those towns that voted the 'right way'. He said that if TVA were run by the wrong people, they would have too much power over businesses and local government in the area.

Having read the proceeding, do you think the U.S. should have built TVA? or build more projects like it? Why or why not?

Digital History
www.digitalhistory.uh.edu

Chapter 14
Social Security, Unemployment Insurance, and Welfare

It would be unusual for high school students just beginning a life of work to worry about having enough money to retire. But they might be concerned whether their parents will have the enough money to support themselves after they retire. And high school students probably know something about how their grandparents are supporting themselves.

For a large number of retired workers the answer to the retirement question is Social Security. Money is taken out of the paychecks of working people under the heading of FICA (Federal Insurance Contributions Act), which is used to pay retired workers and their dependents. The letters FICA appear on paychecks next to the amount deducted under Social Security. It is used to support retired workers who have paid a minimum of 40 quarters (10 years) into the plan.

A Brief History of Social Security

In the l890's Germany established a government retirement plan for the old. In the early 1900's England did the same. Over the next 20 years almost all other industrialized countries introduced programs similar to Germany's and England's. All industrialized countries, that is, except the U.S. Until the 1930's most Americans believed that working people should provide for their own retirement and not depend on the Federal government to do it for them.

The United States provided a social security system for the retired in 1935. But it was seven years before enough workers paid into the system to start making payments The reason for the long waiting period was the system had to build up funds before it could pay beneficiaries.• Monthly payments for the retired ranged from 10 to 80 dollars a month.

Three Different Forms of Social Support

The law which established Social Security actually included three different programs. These were:

1. Old Age Survivors and Disability Insurance
2. Unemployment Insurance
3. Public Assistance

President Roosevelt signed the Social Security Act in 1935, establishing each of the above. Although these bills were passed by Congress and signed by Roosevelt at the same time, they are quite different. This chapter will consider each of these 3 programs separately. It will explain the purpose of the program, who was to benefit, and who would pay for it.

• This principle that payments which go to the retired are paid by men and women who are working is still a key ingredient of the Social Security system.

Digital History
www.digitalhistory.uh.edu

Old Age, Survivors, and Disability Insurance

President Roosevelt signing the Social Security Act in 1935

This program covers more than just retired workers. As the name of this program suggests, it covers the disabled, and surviving wives, husbands, and children as well as the retired.

In order to get Social Security, workers paid 3% of the first $3,000 (40,000, 1998 dollars) they earn each year. Employers had to pay the same amount for each worker. Since payments were low, so were the pay—out. Social Security checks for the retired workers averaged only $20.00 a month.

What Changes Have Been Made in OASDI and Why?

Since 1935, important changes have been made in OASDI. For instance, agricultural workers, and professional workers were included. In 1965, Medicare — health insurance for retired Americans, has been added. Since 1972, automatic cost of living adjustments (COLA) increased Social Security payments. To meet these extra expenses, workers had to pay more into Social Security. The average contribution as of 2001 from the worker is 7.65 per cent of the first 80,400 dollars of his wages or salary. The employer must pay out an equal amount. The average amount a person on Social Security received a month in 1998 was $765 for a retired worker, and $1290 for a married couple. Students may wish to check with a retired friend or relative how much he/she receives and whether that provides enough money to live comfortably.

The problem with Social Security in the late 21st century is the real possibility that the system is slowly running out of money. At current rates, by the year 2030, only two people will be working for every person retired; 76 million baby boomers will have retired between 1997-2030. Though there was 500 billion dollars in the Social Security Trust fund in 1998, by 2009, it will be impossible to make payments from interest alone; beginning in 2012, more money will come out of the system than is being paid in, and after 2030, the Social security Trust fund will not be able to pay all that it is expected to owe, unless further changes are made in the system.

Various solutions have been proposed for Social Security, and President George W. Bush has made reform of the system one of his prime legislative goals. The most controversial reform is to privatize the system — that is allow participants to invest their money in their own private social security account by buying stocks, bonds and mutual funds. Stock prices have averaged a growth of 11% yearly since 1926 (up until 2002), while government securities have only yielded in the neighborhood of 4% yearly increase. If there is no major problem with the stock market, this solution could yield a million dollar nest egg on the average account. However, the stock market poses risks; it took the market 25 years to fully recover from the 1929 crash. Furthermore, advocates of privatizing have not come up with a plan to pay for those obligations (several trillion dollars) accrued by the system before the next plan takes hold.

Other plans for saving Social Security include raising the retirement age in gradual steps to 70 from the current 65; reducing cost of living adjustments; and denying benefits to wealthy retirees who don't need the money.

Unemployment Insurance

If you lose your job and it is not a part-time job, and you lost it through no fault of your own, and you wait two weeks, and you keep looking for work, and you go to the unemployment office — then you get unemployment insurance. If you quit or are fired, if you only had a summer or part time job, if you do not wait two weeks, if you decide not to look for other work, then you do not get unemployment insurance.

The amount the unemployed receive varies from state to state. It's usually from 25% to 50% of the worker's salary. Unemployment benefits are paid for 26 weeks. After that 26 weeks they may be extended for another 13 by or longer by an act of Congress. After unemployment insurance runs out, and a person has lost most of his/her worldly possessions, sold his/her stocks and bonds, and emptied his/her bank account, he or she may be eligible for Public Assistance.

Public Assistance and Aid to Families with Dependent Children

There are many forms of Public Assistance. These include aid to the destitute (just mentioned) old—age assistance (when social security does not provide enough money) aid to the blind, and aid to permanently disabled. Unlike social security and unemployment insurance funds for public assistance are paid for by general taxation. They are not paid, as in the case of other programs, by contributions from the insured. The best known and most controversial form of public assistance is AFDC (Aid to Families With Dependent Children.

Common Assumptions about AFDC

Many people use the name, welfare, to talk about this well-known program for helping destitute people (usually but not always, women) feed, clothe and house their children. When AFDC was established in 1935 not many people needed it and most of the recipients were widowed coal miner's wives. By 1996, before welfare reform, over 9 million people were supported by AFDC and many could not get by without it.

Nevertheless, welfare is the most controversial government assistance program. One of the reasons is that Public Assistance, unlike unemployment and OASDI, is not paid for by the people who get it. It is financed with tax general revenues. It is also controversial because it is associated in peoples' minds with negative and often prejudicial attitudes and stereotypes.

Read the following true statements that correct negative stereotypes about people on welfare:

1. The majority of people on welfare are white

2. Most people on welfare have roughly the same number of children as families with similar incomes who are not on welfare. The average number of children in a welfare family has decreased from 4 to under 3, between 1969-97.

3. Most people stay on welfare for fewer than 3 years

4. Most women on welfare would rather work than receive welfare. (However, people receiving welfare may need some job training, and some help with day care.

5. The value of welfare payments (i.e. its purchasing power) has declined by over 30% between the 1960's and the 1990's.

6. The percent of people caught cheating on welfare is lower than the percent caught cheating on income taxes

7. AFDC is set up to help children — the best way to do this, is to help their parents afford a decent place to live with enough food and clothes to meet the child's needs. The alternative would be to take the children away from their mothers and have them adopted, or grow up in orphanages, or to let the women struggle on their own.

Because many people believed the welfare system was not working properly, major changes were made in 1996. With limited exceptions, the number of consecutive years a family could be on welfare was reduced to two, and the total years of welfare dependency was reduced to five. States would be given a far larger share in administering the welfare program; some immigrants and childless individuals, would be prevented from receiving assistance, states could require work for potential recipients; teen-agers on welfare would be required to live with an adult; and, payments would not be increased for children born to a parent already on welfare. Because little was done to increase money for job-training, school, and child care, many regarded the new law as punitive; its advocates, however, thought it made necessary corrections in a system that had gone out of control. Only time will tell whether the reform will do more harm than good.

Medicare Bill of 1965, with President

Suggested student exercises:

1. What basic reforms were made by the Social Security Act of 1935, and what change in attitudes about the Federal government's responsibility for the well-being of its constituents do these reforms imply?

2. Evaluate the changes that have been proposed to save Social Security (or suggest one of your own). Which one do you think is least objectionable?

3. Are there more reasons for than against supporting the reforms made to welfare in the 1996 Welfare Reform act.

Chapter 15
The Supreme Court and the New Deal

When Federal Constitution was written in 1787, America consisted of thirteen semi-independent states strung along the Atlantic seaboard. At that time 90 percent of its population were farmers and the Atlantic Ocean was the major artery of transportation between the states. It is unlikely that any of the men who wrote the constitution could have imagined that the original thirteen states would expand into fifty, stretched across a mighty continent, linked by steel rails, pipelines, telephone wires, radios and jet planes. But as the country grew the powers of it's government expanded.

With few important exceptions the process of adapting the Constitution to the twentieth century occurred without amending that document. Instead, the Supreme Court gradually re-interpreted the clauses of the Constitution in light of the needs of the times. Thus, the power to regulate commerce among the states once meant to prevent states from obstructing trade among one-another, but in the 1870's it came to mean preventing railroads from overcharging customers when hauling goods across state lines. In the early 1900's, the commerce clause meant granting Congress the power to prevent interstate shipments of foods or drugs that endangered the people's health. Did it also mean Congress could prevent shipment of goods made by children under sixteen years of age or by underpaid women workers? Woodrow Wilson and his Congress said yes, but the Supreme Court later reversed their decision.

Did Congress have the power to regulate manufacturing, to prescribe workers' hours, set minimum wages, and prescribe working conditions? During the 1930's, President Roosevelt and Congress formulated the New Deal's answers to these questions. Yes, they said, the Constitution's commerce clause gave the government the right to regulate manufacturing, mining and agriculture. But the Supreme Court clung to the opposite view: no, the commerce clause was meant to be interpreted strictly, and mining, manufacturing, and farming were local activities outside of congressional control.

Normally, a president does not have the power to modify the Supreme Court's opinions unless he has the good fortune of choosing replacements for retiring judges. President Roosevelt feared that the Supreme Court would invalidate his entire New Deal program before he could appoint new judges. He therefore proposed that Congress give him the power to appointed additional justices to "assist" those over the age of 70. But this approach raised at least as many questions as it answered. If the President with Congress's consent could change the Court to conform to their ideas, what was the purpose of having a Supreme Court or a Constitution, or a separation of powers?

This chapter raises the question whether the country would be best served by resisting President Roosevelt's "court packing" scheme, or by expanding the definition of the commerce clause to permit the Federal government to regulate farming and manufacturing, as well as wages, hours, working conditions, etc.

The Court Decides of the Schecter "Blue Eagle Case

The time was high noon, on Monday, May 27, 1935; the place was the US Supreme Court's chambers in the dignified old building that once housed the Senate. Almost 300 people packed the small semi-circular room. Enveloped in their somber black robes, the nine justices of the Supreme Court sat behind the bench facing their hushed audience. Bearded and solemn, Chief Justice Charles Evans Hughes in his high-backed chair was flanked by associate justices, formally arranged on either side of him according to their years of service with the Court.

All attention was focused on the strong face of the Chief Justice as he read his decision in the case, *Schecter v. the United States.* Hughes' words echoed across the silent room. The Court had decided against the US government. The Live Poultry Code, embodying regulations issued by the National Recovery Administration, was unconstitutional.

Although the Schecters bought their chickens outside of New York State, the Court claimed, that the poultry could not be considered part of interstate commerce because it "was trucked to [the Schecter's} slaughterhouses in Brooklyn for local disposition and sale. The interstate transaction in relationship to that poultry then ended." Using this logic the Court concluded that the buying and selling of chickens was a local industry and could not be regulated by the Federal government. Therefore the Federal code enacted under the auspices of the National Recovery Act was null and void, and the Federal government could not make laws regulating wages, hours, or working conditions in similarly constituted businesses.

A Return to "Horse and Buggy Days

Four days later President Roosevelt expressed his disappointment with the Supreme Court's decision, claiming that "we have been regulated to the horse and buggy days of interstate commerce" and wondering whether the decision meant that the United States government has no control over any national economic problem?

As if to answer the President's inquiry, early the next year the Supreme Court ruled the Agricultural Adjustment Act unconstitutional because:

> *Its stated purpose is the control of agricultural production, a purely local activity, in an effort to raise the prices paid the farmer. Indeed, …the commerce clause, for the purpose of the present case, may be put aside as irrelevant….*[8]

The same year the Supreme Court applied the principle in the NRA and the AAA cases to the Guffey Bituminous Coal Act of 1935 because:

> *The local character of mining, of manufacturing and of crop growing is a fact, whatever may be done with the products.* [9]

The Supreme Court apparently had taken little account of the fact that 97 percent of the coal produced by the company just ruled out of interstate commerce was sold outside of the state in which it was mined.

8 Quoted in James Morton Smith and Paul L. Murphy, Liberty and Justice-A Historical Record of American Constitutional Development (New York: Alfred A. Kropf, 1958), p. 414.
9 Quoted in ibid., p. 416.

Criticism of the Court

By rigidly defining interstate commerce to mean only goods actually moving between states, the Supreme Court claimed to be preserving the rights of states against the powers of the national government. But in a split decision in 1936, the Court declared a New York State law unconstitutional which set a minimum wage for women because it interfered with their freedom of contract. Decisions of this kind had already invalidated a federal minimum wage law, and prompted United Mine Workers Union President John L. Lewis to proclaim, "it is a sad commentary on our form of government when every decision of the Supreme Court seems designed to fatten capital and to starve and destroy labor."

There were others who agreed with Lewis, including a minority in the Court itself. Justice Cardozo, for instance, believed, "that the Constitution did not condemn Congress "to inactivity in the face of price wars and wage wars." Justice Stone in the minimum wage case proclaimed he could find "no basis for the majority's decision, other than our own personal economic predilections." Furthermore, he opined that "{t]here is grim irony in speaking of the freedom of contract of those who, because of their economic necessities, give their services for less than is needful to keep body and soul together."

The President's "Court Packing Scheme

Believing that 'the judges have decided that, under the Constitution, the Federal government cannot lift men, women, and children out of the degradation of unconscionable hours, wages, or working conditions "…because it invades the right of property," President Roosevelt delivered a bombshell to Congress on February 5, 1937. His proposed Judicial Reorganization bill stressed the need of adding younger judges — one for each over 70 years of age. He defended his plan as follows:

The Supreme Court vs. the New Deal

Since the rise of the modern movement for social and economic progress through legislation, the Court has more and more often and more boldly asserted a power to veto laws passed by the Congress and State legislatures. …

In the last four years the sound rule of giving statutes the benefit of all reasonable doubt has been cast aside….

We have , therefore, reached the point as a Nation where we must take action to save the Constitution from the Court and the Court from itself. We must find a way to take an appeal from the Supreme Court to the Constitution itself. We want a Supreme Court that will do justice under the Constitution — not over it. In our courts we want a government of laws and not of men.

I want — as all Americans want — an independent judiciary as proposed by the framers of the Constitution. That means a Supreme Court that will enforce the Constitution as written — that will refuse to amend the Constitution by the arbitrary exercise of judicial power — amending by judicial say-so. It does not mean a judiciary so independent that it can deny the existence of facts universally recognized.[10]

Opposition to Court Packing

After due consideration the Senate Judiciary Committee emphatically disagreed with President Roosevelt's ideas of Court reform. Its report cited the Founding Fathers' commitment to the idea of separation of powers, which would be violated if one branch of government, or even two branches, could irrevocably alter the Constitution to achieve its legislative ends:

Today it may be the Court which is charged with forgetting its constitutional duties. Tomorrow it may be the Congress. The next day it may be the Executive. If we yield to temptation now to lay the lash upon the Court, we are only teaching others how to apply it to ourselves and to the people when the occasion seems to warrant. Manifestly, if we may force the hand of the court to secure our interpretation of the Constitution, then some succeeding Congress may repeat the process to secure another and a different interpretation and one which may not sound so pleasant in our ears as that for which we now contend. …

If this be supported by the toilers of this country upon the ground that they want a Court which will sustain legislation limiting hours and providing minimum wages, they must remember that the procedure employed in the bill could be used in another administration to lengthen hours and to decrease wages. If farmers want agricultural relief and favor this bill upon the ground that it gives them a Court which will sustain legislation in their favor, they must remember that the procedure employed might some day be used to deprive them of every vestige of a farm relief.[11]

Suggested student exercises:

1. What was the basic disagreement over the interpretation of the commerce clause between President Roosevelt and Congress on one side, and the Supreme Court on the other? Why was this difference in interpretation so important at that time and to this day?

2. What was President Roosevelt's remedy for the Court's views on the commerce clause, and how might his remedy correct the problem but create others?

3. Take the position of the President or of the Senate Judiciary Committee to argue for or against his proposal for judicial reorganization.

10 Quoted in Henry Steele Commager, Documents of American History (New York: Appleton Century Croft, , 1963), pp. 384-85
11 Quoted in Henry Steele, op. cit., p. 389

Epilogue: A Switch in Time

Even before Roosevelt delivered his "court packing" message, changes occurred within the Supreme Court which seemed to decrease the need for reorganization. In a notable decision on the Wagner Act, written before but delivered after Roosevelt's request for reorganization, the Court had already began reversing itself on the limitations of interstate commerce:

> *Although activities may be intrastate in character when separately considered, if they have such a close and substantial relation to interstate commerce that their control is essential or appropriate to protect that commerce from burdens and obstructions, Congress cannot be denied the power to exercise that control.*

The Court's shift to a broader interpretation of the commerce power was demonstrated again in its decision upholding the Social Security Act. The Court reversed itself again in upholding a state minimum wage law very similar to the New York law it found unconstitutional a few months earlier. In May of 1937, Justice Van Devanter announced his retirement from the Court, which gave President Roosevelt the opportunity to appoint a Supreme Court justice with views more similar to his own. Altogether Roosevelt was able to appoint six new Supreme Court justices and thus won the battle to redirect the thinking of the Supreme Court without violating the principle of the separation of powers.

Despite his victories in securing a broader interpretation of the commerce clause, President Roosevelt paid a heavy price for his attempt to pack the Supreme Court. After the uproar over his court packing bill, Republicans were able to make substantial gains in Congress, and Roosevelt never again possessed the majorities that allowed him to pass such liberal legislation as the farm program, minimum wage, Social Security, or TVA. With war clouds rising over Europe and Asia, the attention of the President and the country shifted from his program of domestic reform to foreign affairs. Within three years, Dr. "End-the-Depression" was replaced by "Dr. Win-the-War". Further debates over domestic reforms had to be postponed to the post war era, and the clash between liberals and conservatives was temporarily and partially put aside only to be fully resumed after World War II.

End of Unit Essay Question:

Based on your understanding of the material in this unit, decide whether the U.S. should follow liberal or conservative economic policies. Then write an essay of at least 1,200 words supporting your answer. Your essay should cover the following topics:

a. On the whole, were conservative policies responsible for the prosperity of the 1920's or for the Depression that followed (or for both)? Give evidence (including statistics) to support your claim.

b. On the whole, were the aid programs you studied in Roosevelt's New Deal unnecessary and unsuccessful or did they meet the real needs of those they were supposed to help? Give specific examples of at least three New Deal Programs (and be sure to include the idea of deficit spending).

c. Did the New Deal policies under Roosevelt go too far in the direction of reducing the civil liberties of Americans and threaten to destroy the system of checks and balances embodied in the US Constitution?

Your essay should include an introduction, a thesis in which you state the major idea you will support, a paragraph which foreshadows or anticipates your major arguments, a main body incorporating supportive evidence from this unit, and a conclusion which states what you have proved.