

ECONOMIC BOOM TO ECONOMIC BUST 1921-1940

During the 1920s the United States enjoyed unusual prosperity for some industries. New industries added to the prosperity and many people enjoyed an increase in their standard of living.

URBAN PROSPERITY AND NEW INDUSTRIES

During the decade of the twenties the American standard of living improved more rapidly than ever before. A small core of unemployment remained (inner city blacks), and some industries such as textiles and coal mining, suffered chronic depression, but most urban dwellers lived better than ever before. People had more leisure time to enjoy popular spectator sports and engage in outdoor recreation.

The automobile, radio and motion pictures became available to nearly everyone. "Talking pictures" had become common in 1928. Mass production made the new gadgets and entertainment available. Mass entertainment, with the national advertising that supported the radio, brought a greater uniformity in manners and customs. Installment buying increased the market for consumer goods by enabling families to buy certain items on credit. Mass merchandising in groceries at "chain stores" and in miscellaneous goods at variety store chains brought lower priced to consumers.

In addition, the "laissez faire" policies of the Harding and Coolidge administrations led to businesses being able to sell goods without much government regulation, which in turn lowered costs on some products for consumers.

THE AUTOMOBILE

After the combustion engine had been harnessed to the horseless carriage about 1900, this new rubber tired "automobile" caught on rapidly. However, it was a toy for the rich, until Henry Ford envisioned an automobile at a price everyone could afford. In 1908 he developed the "Model T" and in a few years had already developed a market for several hundred cars per day. Soon after the war it seemed that almost every family had managed to buy a car. Most early automobile makers were forced out by the few large and efficient firms that came to dominate the market.

The automobile revolution in transportation, like the coming of the railroad, had vast repercussions on the total economic life of the nation. Allied industries sprang up. Highway construction and improved roads became necessary. The petroleum industry multiplied its output as gasoline became its leading product. The pattern of town growth began to stretch town out along the roads. Filling stations and garages became a familiar part of the American scene. The rubber and steel industries benefited enormously as did construction companies. About one in every seven persons came to depend directly upon the automobile for his livelihood.

THE FARM PROBLEM

Millions of acres of land were plowed up during WWI to produce food and fiber to win the war. Government subsidies and exhortation encouraged this expansion.

After the war European agriculture recovered and needed fewer imports of goods. Increased production for export by foreign agriculture helped produce a surplus in world markets. In the United States consumers changed their diet and ate less wheat and meat (corn, rice etc). The use of machines and the substitution of gasoline-powered tractors for draft animals both increased the production and released tens of millions of acres from the production of feed for draft animals. This increased the production of crops for the market. Many farmers had bought land in the prosperous war years at high prices and later found interest payments extremely burdensome. Many were foreclosed.

THE ELECTION OF 1928

Calvin Coolidge could have had the Republican nomination for a third term but he refused. The brilliant engineer Herbert Hoover, who served as Coolidge's Secretary of Commerce, was quickly chosen by the convention. The Democrats chose the honest and sincere Alfred E. Smith, the forceful and popular governor of New York.

Smith conducted an energetic campaign and denounced both prohibition and the favoritism of the Republicans to industrialists. This tactic helped Smith win support in many rural areas and in the inner city among the blacks, all of whom suffered economically during the twenties. This was the shift that still exists today. Rural and inner city areas vote Democrat in elections. The blacks now supported the political party that fought so hard to keep them slaves.

However, the urban areas outnumbered the other areas in actual population and in voter turnout, which gave the Republicans an overwhelming victory, which to many signaled many more years of great economic growth.

THE FEDERAL FARM BOARD

To appease the unhappy farmers and head off more radical legislation, Hoover called Congress into special session to pass the Agricultural Marketing Act of 1929. This act established a Federal Farm Board to encourage farmers' marketing cooperatives to organize. The farm board 1) loaned money to the cooperatives to promote the storage and orderly marketing of farm produce; 2) at the same time it sought to discourage production where surpluses had depressed prices; 3) the board itself purchased surpluses of cotton and wheat to prevent price declines. After two years of spending and the plight of the farmers unchanged, the Board ceased to hand out money.

THE HAWLEY-SMOOT TARIFF

Hoover undertook tariff revision also. He wanted to raise the tariff. By compromise and political influence, the Republicans carried tariff-rates at an all-time high. Leading economists urged Hoover to veto the measure. They pointed out 1) it would raise consumer prices; 2) it would injure farmers by limiting the ability of foreign countries to buy American exports, and 3) it would eventually lead to industries being hurt by foreign countries denying American businesses to sell goods there. Despite the warnings, Hoover felt that the United States' economy was strong enough to go it alone, and other countries would not be able to limit American exports because of their need for natural resources.

THE PANIC AND THE DEPRESSION

Only a few observers cast doubts on the soundness of the economy in the summer of 1929, but certain weaknesses were noted. Too much money was being diverted into stock market speculation, the building boom was slowing down, surpluses existed in all major industries and credit buying was being used in most consumer markets (including the stock market).

The problem of buying stocks on credit is what worried people the most. To discourage such practices, the Federal Reserve Board raised its discount rate in the summer of 1929. In October, the English lowered its rates in order to attract funds into England. This touched off selling in the New York Stock Exchange as people looked to invest money into England. Within a month stock prices declined about 37 percent. Because of the weaknesses in the economy, the stock market crash set off a chain reaction that led the United States into a deep depression by the summer of 1930. By summer of 1932, unemployment reached 33 percent nationwide. Some areas of the country saw 100 percent unemployment.

HOOVER'S STEPS TO FIGHT THE DEPRESSION

Hoover accepted the need, more than any other president before him, for government attack upon the depression. However, according to the American people, he did not do enough. His failure to act more vigorously may be explained 1) by his philosophy that expected measures of a voluntary nature by private

businesses and the belief that the people should work harder to get themselves out of the mess (orphan attitude); 2) the belief that the depression would be short-lived, that prosperity was “just around the corner”; 3) Hoover believed the causes of the depression were fundamentally international and the burden of intergovernmental debts (Germany) was primarily responsible.

Hoover at first held a series of conferences in Washington to secure the voluntary cooperation of business in maintaining wages and continuing plant expansion. He asked labor to spread the work by accepting part-time employment so that more persons could stay on the payrolls. In 1930 Hoover asked Congress to appropriate funds for public work projects. He caused Congress to establish the Reconstruction Finance Corporation to lend money to state and local governments to create jobs and to banks, railroads, and other large corporations to prevent bankruptcy and to help create jobs.

The Home Loan Bank Act of 1932 established Home Loan Banks to refinance home mortgages for individuals in danger of losing their homes by foreclosure. Hoover declared a one-year moratorium in 1931 in the payment of international debts. This led to Germany defaulting on the money it owed to the Allied Powers of WWI, which caused a deeper economic decline in Europe. Hoover opposed the payments of the veterans' bonus which would have both discharged this obligation and given many families the purchasing power needed to restart the economy. The Bonus Army of unemployed WWI veterans and others marched to Washington and camped in the city until they were routed by the army upon Hoover's orders.

THE ELECTION OF 1932

The midterm election of 1930 gave the Democrats control of Congress; as the depression grew worse and Hoover's inability to handle the situation almost guaranteed the Democrats the White House in 1932. In a lively convention, Franklin Roosevelt won the nomination. When the Republicans renominated Hoover, FDR won a victory of landslide proportions.

THE INTERREGNUM

The transition of the Presidency from Hoover to FDR left the country without a leader to deal with the depression. During this “interregnum” the uncertainty as the policies of the new administration created uncertainty and fear. This led to the depression growing worse between November, 1932 and March, 1933. Banks closed across the country and unemployment reached a new record at 40 percent when Roosevelt took office on March 4, 1933.

THE TWENTIETH AMENDMENT

This amendment was ratified in the summer of 1933 to keep the transition of the Presidency smoother in the future. It moved the inauguration date from March 4 to January 20th. Thereby, creating a shorter time for the transition and hoping to keep future crisis from escalating like the depression did in early 1933.

THE NEW DEAL

During his time waiting for his inauguration Roosevelt began drafting a plan to help stimulate the nation's economy.

THE CAREER AND CHARACTER OF FRANKLIN ROOSEVELT

FDR, like his distant relative Theodore Roosevelt, enjoyed the advantages of upbringing in a wealthy and cultured family. His political career he embarked on was meant to follow the same path as the family hero, Theodore. He began his career as a Republican, but in 1912 when the Democrats won the White House and Congress, FDR was forced to decide, after consulting with his mother, to join the Democratic Party. He served as Assistant Secretary of the Navy under Woodrow Wilson. In 1921 both his legs were crippled by an attack of infantile paralysis, polio. His handicap did not keep him from reading, and with the help of his wife Eleanor kept in contact with the Democratic Party leaders. In 1928, like Theodore, he was elected

governor of New York and enacted a modest program of liberal, if not progressive, legislation; his understanding of human nature, given to him by Eleanor, and his personality won him support and popularity.

Roosevelt very early demonstrated his forceful and dramatic leadership. He gained favorable publicity by winning the good will of the press. His well-timed fireside chats to the nation built up popular support. He exerted strong leadership with members of Congress. He induced a democratic Congress to give him much discretionary power in legislation. He gave his program the popular label, the "New Deal."

THE PHILOSOPHY OF THE NEW DEAL

Instead of choosing either rightist policies of the fascists or the leftist policies of the extreme socialists as some world leaders at the time were doing, Roosevelt chose a middle course of preserving both private enterprise and democratic institutions. His innovations consisted of a large number of measures to plan and regulate the economy of the nation by government controls. He sought to restore prosperity to the nations. Instead of pursuing early plans got international solution of economic problems in the London Economic Conference, which met in 1933 and included Adolph Hitler, Roosevelt suddenly decided to concentrate upon a domestic program of economic rehabilitation, because of the American people's demand to fix America's problems before fixing the world's problems. The program had three goals: relief, recovery, and reform. In addition to planning, Roosevelt expected to take an approach of experimentation in the effort to find workable solutions for economic problems. New Deal philosophy operated to put money into the hands of the "forgotten man" and restore purchasing power at the bottom of the economic scale to create mass purchasing power.

NEW DEAL MEASURES AND EVENTS

Roosevelt had many problems he was expected to fix immediately upon his arrival in the White House. During the "hundred days" after his inauguration, Roosevelt sent to Congress many bills, which were often passed without even being read.

THE BANKING CRISIS

With depositors making runs on banks and forcing them to close, Roosevelt faced an immediate and serious crisis. The new President's first act was to declare, on March 5, a bank holiday to close all banks until they could be reopened again after public confidence had been restored. He called Congress into special session on March 9. Within a few hours Congress passed an Emergency Banking Act that 1) provided for the examination of all banks and reopening of those found to be sound. 2) the Act call into the treasury all gold and gold certificates and thereby took the nation off of the gold standard. 3) In place, the government was authorized to issue emergency currency.

EARLY LEAGISLATION OF THE NEW DEAL

- 1) The Civilian Conservation Corps (CCC) was created in April, 1933. It employed young men from destitute families. They were put to work in various outdoor conservation projects in forests and parks. The 1,600,000 youths lived in camps under semi-military discipline; most of their small wages were sent home to sustain their families.
- 2) The Federal Emergency Relief Administration (FERA) was passed in April, 1933. It provided relief funds for food, clothing and shelter to the unemployed until they could find jobs or work relief.
- 3) The Civil Works Administration (CWA) was passed November, 1933. It gave work relief to 4,000,000 people.
- 4) The Public Works Administration (PWA) provided large projects of permanent construction, such as buildings and waterworks, to be built under contracts with private firms.
- 5) In early 1935 the Works Progress Administration (WPA) created jobs in government projects of all kinds. It provided for jobs for a wide variety of talents – in writing, acting, painting, teaching, and other white-collar jobs. The National Youth Administration (NYA) under the

WPA provided small jobs on campus for high school and college youths to enable them to earn enough to stay in school.

- 6) To provide stability to farmers in May 1933 Congress passed the Farm Credit Administration (FCA) to refinance farm mortgages at lower government guaranteed interest rates. This Act also postponed farm foreclosures. To reduce the oversupply of farm goods, Congress created the Agriculture Adjustment Administration (AAA) at the same time. The AAA 1) made rental payments to farmers for retiring acreage from cultivation in the basic crops and paid subsidies for reducing the numbers of hogs and cattle. 2) This act levied a processing tax against the processors of farm crops in order to raise money to finance the subsidies to farmers.
- 7) In May, 1934, Congress granted the President complete control of the money supply of the United States.
- 8) Also in the same month, Congress created the National Recovery Administration (NRA) to maintain higher wages and prices in business of all kinds. The law opposed ruinous competition by encouraging trade associations, such as barbers and dry cleaners, to adopt codes of fair competition, which prescribed wages, hours, and prices. It provided for a minimum wage and the outlawing of child labor in factories.
- 9) In 1935 the National Labor Relations Act created the National Labor Relations Board (NLRB) to determine fair negotiations between business owners and labor groups.
- 10) The Tennessee Valley Authority (TVA) was created to put people to work building dams along the Tennessee River to control flooding and create electricity. This was the model used to create other administrations to do the same thing along other rivers.
- 11) The Rural Electrification Administration (REA, 1935) created a national program to bring electricity to rural areas which had been bypassed by privately owned utilities.
- 12) The Federal Housing Administration (1934) was created to insure home mortgages created by private financing on new construction and was later extended to existing houses.
- 13) The United States Housing Authority was created to subsidize projects by local governments in slum clearance and construction of low-rental housing in the cities.
- 14) The Glass-Steagall Banking Act (1933) created the Federal Deposit Insurance Corporation (FDIC) under federal control to provide insurance of individual bank accounts. Banks would join the corporation and would be required to undergo federal audits on a periodical basis.
- 15) In 1934 the Securities and Exchange Commission (SEC) was created. The SEC was given the power to regulate new issues of securities and regulate security markets.
- 16) In 1935 Congress passed the Social Security Act to allow the elderly a government insured pension plan. The law allowed for the elderly (65 and over) to receive a pension based on taxes paid by the employee and employer. The law also allowed federal assistance to the states to give aid to various types of indigent persons: pensions for the aged, maternal and child health services, and for crippled children and the blind. The same law also established a system of unemployment benefits administered by the states but financed by payroll taxes.

THE ELECTION OF 1936

The great changes introduced by the New Deal aroused angry opposition among a minority. In the campaign the opposition stated its objections. 1) The New Deal's spending was greatly increasing the national debt; 2) the New Deal was too socialistic, and encouraged labor to make extravagant demands; 3) Roosevelt was accused of using federal funds to build a political machine to perpetuate his party in office; and 4) many believed the New Deal violated the Constitution.

The Republicans chose Alfred M. Landon, a mid-western Calvin Coolidge, to contest Roosevelt for the Presidency. The Democrats won by a landslide. Landon won only 8 electoral college votes in the two states of Maine and Vermont, to make this the most lopsided Presidential Election since 1820 and the most lopsided election in which there were two people running for the office. The Democrats also won overwhelming control of both houses. In this election, the Gallup Poll was introduced to predict the outcome of the election before election day. When the Poll predicted the landslide that Roosevelt won by it became a foundation of the elections to come.

ROOSEVELT AND THE SUPREME COURT

One of the greatest obstacles of Roosevelt's New Deal was the Supreme Court. During his first term the Court had declared the National Recovery Administration, Agriculture Adjustment Administration and the Farm Credit Administration unconstitutional. Also, the Court seemed to be on a road to declare the Social Security Act unconstitutional. Because of his landslide, Roosevelt took the election as an endorsement of his New Deal. He now sought to remove the greatest obstacle to its success. Roosevelt criticized the conservatism of the "nine old men" who, he said, followed the precedents of the "horse and buggy says." Six of them were over 70 years of age and Roosevelt had not had an opportunity to appoint anyone to the court to help his New Deal program.

The President now had his friends in Congress sponsor a law to permit a president to appoint as many as six additional justices to the Court where incumbent justices over 70 did not choose to retire. For the first time, Roosevelt found many former political leaders and supporters combined against him. A storm of opposition in the country and among conservative Democrats arose over the "Court Packing Bill." Even as the debate was going on in Congress, many of the justices Roosevelt wanted to replace began to retire and Roosevelt replaced them with staunch New Dealers. By 1939 Roosevelt had a majority of New Dealers on the Court, which assured the constitutionality of the New Deal.

THE RECESSION OF 1937-1938

After substantial recovery from the 1933 lows in the economy, the administration took several steps in 1936 and 1937 to reduce the burden of expense in fighting the economic depression. The result was a sudden and severe recession beginning in 1937. Heavy federal spending was resumed and the economy again started to recover in 1938. This experience proved the need for the federal government to take the lead in providing a sound economy throughout the United States. To show the extent Americans were willing to accept a strong federal government (and it shows how effective Roosevelt was in getting the Supreme Court to accept New Deal ideas) was the case of *Wickard v. Filburn* (1941). The Supreme Court ruled that subsistence agriculture fell under the Interstate Commerce Clause of the Constitution. It reasoned that the subsistence farmer in Iowa did not demand wheat from the wheat farmer in Ohio, which caused the price of wheat to drop on the open market because of lower demand.

Despite the growth of autonomous power of the federal government, the American people again re-elected Roosevelt to an unprecedented third term in 1940. Roosevelt reasoned that the economy could not handle a transition in the presidency. The people agreed and were generally grateful to Roosevelt for restoring their most, but not all, of their pre-1929 livelihood.