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Anchor Text Topic 5

The Great Depression (1929–1939) for AP U.S. History

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The Great Depression (1929–1939) Review Questions for AP U.S. History

Summary: The Great Depression had a monumental effect on American society, and its effects are still felt today. Franklin Roosevelt, the architect of the New Deal, is considered by many to be one of America's greatest presidents, and he was the model for activist presidents who desired to utilize the power of the federal government to assist those in need. The origins of the Great Depression can be found in economic problems in America in the late 1920s: "installment buying" and buying stocks "on the margin" would come back to haunt many homeowners and investors. The stock market crash of 1929 was followed by bank failures, factory closings, and widespread unemployment. President Herbert Hoover believed that voluntary action by business and labor interest could pull America out of its economic doldrums. Franklin Roosevelt was elected president in 1932 with the promise of a "New Deal" for the American people. During his first hundred days in office, Roosevelt acted forcefully to restore confidence in the banks, stabilize prices, and give many young people work through the establishment of the Civilian Conservation Corps. During the Second New Deal later in the 1930s, measures such as the Social Security Act were enacted to provide a safety net for Americans in need. Some critics of the New Deal branded it socialism; others said it didn't go far enough to fight poverty in America. New Deal policies never ended the Great Depression; America's entry into World War II did.

Keywords

Hoovervilles: settlements of shacks found on the outskirts of many American cities beginning in the early 1930s.

Dust Bowl: the name given in the 1930s to regions of Oklahoma, Kansas, Nebraska, Colorado, and Texas, where severe drought and poor farming practices caused massive dust storms. By the end of the decade, nearly 60 percent of all farms there were either ruined or abandoned. Many from the Dust Bowl ended up moving westward in search of jobs.

Hawley-Smoot Tariff (1930): tariff act that imposed severe tariffs on all incoming goods; European countries responded with their own high tariffs. Most historians say this tariff did little to help the American economy.

Federal Deposit Insurance Corporation (FDIC): federal agency established during the "First Hundred Days" of the New Deal in 1933 in an effort to halt panic over bank closings. The FDIC insures the bank deposits of individual citizens.

Civilian Conservation Corps (CCC): also established in 1933, the CCC eventually provided jobs for 2.5 million young Americans in forest and conservation programs.

National Industry Recovery Act: New Deal legislation requiring owners and labor unions in various industries to agree upon hours, wages, and prices; as a result, wages did go up for many workers but so did prices.

Tennessee Valley Authority: agency created in the New Deal to oversee the construction of dams, providing electricity and flood control for many in the Tennessee River Valley; for many in the region, this was the first time their homes had electricity.

Works Progress Administration (WPA): New Deal program that employed nearly eight million Americans; WPA projects included the construction of schools and roads. Unemployed artists and musicians were also employed by the WPA.

Wagner Act: critical piece of New Deal legislation that protected the right of workers to form unions and utilize collective bargaining.

Social Security Act (1935): New Deal legislation providing pensions for workers reaching retirement age. Both workers and employers pay into the fund that provides this benefit. Initially, farm workers and domestic workers were not covered by Social Security.

New Deal Coalition: The political coalition created by Franklin Roosevelt that, by and large, kept the Democratic Party in power from the 1930s through the 1960s; this coalition consisted of workers in American cities, voters in the South, labor unions, and blacks.

Scottsboro Boys: nine black defendants in a famous 1931 case; they were accused of raping two white women on a train, and despite the lack of evidence, eight were sentenced to death. The American Communist Party organized their defense.

The American Economy of the 1920s: The Roots of the Great Depression

The vast majority of Americans in 1929 foresaw a continuation of the dizzying economic growth that had taken place in most of the decade. In his inauguration speech, newly elected president Herbert Hoover reemphasized his campaign promise that it was the goal of the Republican party to permanently wipe out poverty in America. In early September 1929, the average share of stock on the New York Stock Exchange stood near 350, a gain of nearly 200 points in a little over a year.

However, careful observers of the American economy noticed several disturbing trends that only seemed to be increasing. These included the following:

1. *Agricultural problems*. Farm prices were at a record high during World War I, dropped after the

war, and never recovered. Many farmers were unable to pay back bank loans they had acquired to purchase land, tractors, and other equipment; many farms were foreclosed, and, in farm states, over 6200 banks were forced to close. Legislation to help farmers had been passed by Congress, but bills to help the farmers were vetoed by President Coolidge on two occasions.

2. *Installment buying.* As stated in the previous chapter, large numbers of Americans purchased automobiles, refrigerators, vacuum cleaners, and similar household products on credit. Many Americans simply did not have anywhere near enough cash to pay for all they had purchased. The money of many families was tied up making installment payments for three or four big-ticket items; this prevented them from purchasing many other items available for sale. In 1928 and 1929, new goods continued to be produced, but many people simply could not afford to buy them. As a result, layoffs began occurring in some industries as early as 1928.
3. *Uneven division of wealth.* America was wealthy in the 1920s, but this wealth did not extend to all segments of society. The gains made by wealthy Americans in the 1920s far outstripped gains made by the working class. By the time of the stock market crash, the upper 0.2 percent of the population controlled over 40 percent of the nation's savings. On the other hand, over three-quarters of American families made less than $3000 a year. Problems that could develop from this situation were obvious. The bottom three-quarters of families were too poor to purchase much to help the economy to continue to flourish. Furthermore, at the early signs of economic trouble, many of the wealthiest Americans, fearing the worst, curtailed their spending.
4. *The stock market.* There were cases in the late 1920s of ordinary citizens becoming very wealthy by purchasing stock. Some of these people were engaged in **speculation**, meaning that they would invest in something (like the previously mentioned Florida lands) that was very risky, but that they could potentially "make a killing" on. Another common practice in the late 1920s was buying shares of stock **"on the margin."** A stockbroker might allow a buyer to purchase stock for only a percentage of what it was worth (commonly as low as 10 percent); the rest could be borrowed from the broker. As long as stock prices continued to rise, investors would have no trouble paying brokers back for these loans. After the stock market crash, brokers wanted payment for these loans. Countless numbers of investors had no way to make these payments.

The Stock Market Crash

The prices of stock crested in early September of 1929. The price of stock fell very gradually during most of September and early October. Some investors noted that some factories were beginning to lay workers off; whispers were heard around Wall Street that perhaps the price of stock *was* too high, and that it might be good to sell before prices began to fall.

The first signs of panic occurred on Wednesday, October 23, when in the last hour of trading, the value of a share of stock dropped, on average, 20 points. On October 24 a massive amount of stock was sold, and prices again fell dramatically. Stockbrokers told nervous investors not to worry; Herbert Hoover announced that the stock market and the economy "is on a sound and prosperous basis."

A group of influential bankers and brokers pooled resources to buy stock, but this was unable to stop the downward trend. Prices fell again on Monday, October 28, and on the following day, Black Tuesday, the bottom fell out of the market. Prices fell by 40 points that day; it is estimated that total losses to investors for the day was over $20 million. Stockbrokers and banks frantically attempted to call in their loans; few investors had the money to pay even a fraction of what they owed.

How the Stock Market Crash Caused the Great Depression

In the weeks immediately following the crash, important figures from the banking world and President Hoover all assured the American people that America was still economically sound, and that the crash was no worse than other stock downturns that had had little long-term effect on the economy. In retrospect, it can be seen that through both direct and indirect means, the stock market crash was a fundamental cause of the Great Depression. As a result of the crash:

1. *Bank closings increased.* As stated previously, many banks in rural America had to close when farmers couldn't repay loans. The exact same thing happened to many city banks after 1929 when investors could not repay their loans. In addition, the news of even a single bank closing had a snowball effect; thousands of people went to banks across the country to withdraw their life savings. Banks did not have this kind of money (it had been given out to investors as loans); soon urban banks began to fail as well. It is estimated that by 1932 approximately 5000 banks fell, with the life savings of over 5 million Americans gone forever
2. *Income fell for industrialists*. Many large industrialists invested heavily in the stock market. They had less available cash, and some started to close or reduce the scale of their factory operations. Workers were laid off or made much less money; as a result, they were able to buy fewer products made in other industrial plants, causing layoffs there as well. By 1933, nearly 25 percent of the labor force was out of work.
3. *Effect on the world.* Many European countries, especially Germany, utilized loans from American banks and investment houses in the 1920s and 1930s to remain viable. When American financial institutions were unable to supply these loans, instability occurred in these countries. Some historians make the argument that, perhaps indirectly, the American stock market crash opened the door for Hitler to come to power in Germany.

The Social Impact of the Great Depression

Many Americans felt a huge sense of uprootedness in the 1930s. By late 1932, virtually all sectors of American society were affected in some way by the Depression. Both professional men and common laborers lost their jobs. It was not uncommon during the Depression for two people to share a job, or for a man who had lost his job to continue to put his suit on every morning and pretend to go to work, somehow averting the shame he felt for being unemployed. Women and minorities were often the first to lose their jobs, although women in certain "female" occupations (such as domestic work) were almost never uprooted by men. "Respectable" white men were willing to take jobs that had been previously seen as fit only for minorities. Many behaviors of the 1920s, such as buying on credit, were forgotten practices by 1932.

Many private agencies established soup kitchens and emergency shelters in the early 1930s, but many more were needed. Many couples postponed marriage and having children. Those with nowhere to live in cities often ended up in **Hoovervilles**, which were settlements of shacks (made from scrap metal or lumber) usually located on the outskirts of cities. Many unemployed young people, both men and women, took to the road in the 1930s, often traveling in empty railroad cars.

The greatest human suffering of the Depression era might have existed in the **Dust Bowl**. For most of the decade, massive dust storms plagued the residents of Oklahoma, Kansas, Nebraska, Colorado, and Texas; farm production in this area fell drastically for much of the decade. A severe drought was the major cause of the dust storms, although poor farming practices (stripping the soil of any topsoil) also contributed to them. By the decade's end, nearly 60 percent of all farms in the Dust Bowl were either ruined or abandoned. Many Dust Bowlers traveled to California to get agricultural jobs there, and discovered that if an entire family picked grapes from sunup to sundown, it might barely scrape by. (John Steinbeck's book *The Grapes of Wrath*, as well as the film version, are highly recommended for further study of Dust Bowlers and their move to California, as are the recordings of Woody Guthrie entitled "Dust Bowl Ballads" and the Depression-era photos taken by Dorothea Lange.)

The behavior and attitudes of many who lived through the Depression changed forever. Many would *never* in their lives buy anything on credit; there are countless stories of Depression-era families who insisted on paying for everything, including automobiles, with cash. Depression-era shortages led many in later life to be almost compulsive "savers" of everything and anything imaginable. Many who lived through the Depression and had children in the 1950s were determined to given their kids all that they had been deprived of in the 1930s.

The Hoover Administration and the Depression

To state that Herbert Hoover did nothing to stem the effects of the Great Depression is not entirely accurate. Nevertheless, he did believe that this crisis could be solved through **voluntarism**. Hoover urged Americans to donate all they could to charities, and held several conferences with business leaders where he urged them not to reduce wages or lay off workers. When it became obvious that these measures were not enough, public opinion quickly turned against Hoover.

The Hoover administration did take several specific measures to offset the effects of the Depression. Even before the stock market crash, the **Agricultural Marketing Act** created a Federal Farm Board that had the ability to give loans to the agricultural community and buy crops to keep farm prices up. By 1932, there was not enough money to keep this program afloat. In 1930, Congress enacted the **Hawley-Smoot Tariff**, which to this day is the highest import tax in the history of the United States. In response, European countries drastically increased their own tariffs as well; some historians maintain that this legislation did little to improve the economy of the United States, but that its effects did much to ensure that the American Depression would be a worldwide one.

Hoover did authorize more money for public works programs, and, in 1932, he authorized the creation of the **Reconstruction Finance Corporation**. This agency gave money to banks, who were then authorized to loan this money to businesses and railroads. Another bill authorized loans to banks to prevent them from failing. To many in America, these bills were merely signs that Hoover was only interested in helping those at the top of society and that he cared little about the common person. Hoover vetoed legislation authorizing a federal relief program, although in 1932 he did sign legislation authorizing federal loans to the states; states could then administer relief programs with this money.

Those Americans who felt that Hoover was unconcerned about the plight of the common man had their views seemingly confirmed by federal actions against the **Bonus Army** that appeared in Washington in the summer of 1932. This group of nearly 17,000 unemployed World War I vets came to ask the federal government to give them the bonuses that they were supposed to get in 1945 immediately. At Hoover's urging, the Senate rejected legislation authorizing this. Most of the Bonus Army then went home, but a few thousand stayed, living in shacks along the Anacostia River. Hoover ordered them removed; military forces led by Douglas MacArthur used tear gas and cleared the remaining bonus marchers from their camp and burned down the shacks they had been living in.

The 1932 Presidential Election

The two candidates in the 1932 presidential election could not have been more different in both content and style. In a joyless convention, the Republicans renominated Herbert Hoover. In newsreels seen by Americans across the country, Hoover came across as unsmiling and utterly lacking in warmth. He insisted that his policies would eventually lead America out of the Depression, stating that history demonstrated that lulls in the American economy are always followed by upturns. Hoover warned against "mindless experimentation" in the creation of government policies. It should be noted that Hoover was echoing standard economic and political theory of the era.

Hoover's opponent in the election was the Governor of New York, Franklin Delano Roosevelt. Roosevelt was a man of wealth. After serving as Assistant Secretary of the Navy under Woodrow Wilson, Roosevelt unsuccessfully tried to get the vice presidential nomination in 1920. During the summer of 1921, he came down with polio, which left him unable to walk for the rest of his life. Several of Roosevelt's biographers maintain that the mental and physical anguish caused by his polio made Roosevelt much more sensitive to the sufferings of others.

Franklin Roosevelt married a distant cousin, Eleanor Roosevelt, in 1905. While Franklin spent much of the 1920s attempting to recover from polio in Warm Springs, Georgia, Eleanor became a tireless worker in New York state politics, pushing for governmental reform and better conditions for working women. The role that Eleanor Roosevelt played during the presidency of Franklin Roosevelt cannot be overestimated. FDR (this shortening of his name was done by a reporter in 1932) often stated that Eleanor served as his "legs," visiting miners, schools, and countless other groups. Eleanor also discussed policy with Roosevelt and continually urged him to do more to offset the effects of the Depression.

As Governor of New York during the first years of the Great Depression, Roosevelt instituted relief programs that became models for others across the country. During his campaign Roosevelt promised the **"New Deal"** for the American people; unlike Hoover, he also promised to experiment to find solutions to America's problems. Roosevelt's broad smile and personal demeanor contrasted drastically with the public image of Herbert Hoover; Americans were convinced that Roosevelt cared (this would be demonstrated during his presidency by the hundreds of letters that both Roosevelt and his wife received during the presidency, asking for things such as small loans, money to pay doctors, and old clothes; it should also be noted that many Americans had a picture of Franklin Roosevelt on display somewhere in their living quarters during the Depression).

The 1932 presidential election was easily won by Roosevelt, who won by over 7 million votes. Hoover's only strength was in the Northeastern states. In addition, the Democrats won control of both houses of Congress. Some had feared (or hoped) that the Depression would radicalize the American working class, yet the socialist candidate for president, Norman Thomas, received considerably less than 1 million votes.

The First Hundred Days

Franklin Roosevelt's inauguration speech in 1933 was one of optimism; the most quoted line of this speech is "... so first of all let me assert my firm belief that the only thing we have to fear is fear itself." Within a week of taking office, Roosevelt gave the first of his many **fireside chats**. During these radio addresses, Roosevelt spoke to the listening audience as if they were part of his family; Roosevelt would usually explain the immediate problems facing the country in these speeches and outline the reasons for his decided solution.

Roosevelt surrounded himself with an able cabinet, as well as a group of unofficial advisors called Roosevelt's "brain trust." In dealing with the problems of the Depression, Roosevelt urged his advisors to experiment. Some programs thus failed, some were continually reformed, and several conflicted with each other. The key, insisted Roosevelt, was to "do something."

During the first **Hundred Days** of the Roosevelt administration, countless programs were proposed by the administration and passed by Congress that attempted to stimulate the American economy and provide relief and jobs. A very popular act, for psychological reasons if nothing else, was the repeal of Prohibition, which was actually voted on by Congress in February 1933.

Roosevelt's economic advisor told him that his first priority should be the banking system. On March 5, 1933, he officially closed all banks for four days and had the federal government oversee the inspection of all banks. By March 15, most banks were reopened; this cooling-off period gave people a renewed confidence in the banks, and slowly people started putting back into banks instead of taking out. The Banking Act of 1933 created the **Federal Deposit Insurance Corporation (FDIC)**, which insured the bank deposits of individual citizens.

During the hundred days, large amounts of federal money were handed down to local relief agencies, and a Federal Emergency Relief Administration (led by Harry Hopkins) was also established. Efforts were also made to help people find work. Thousands were hired from funds distributed to states by the Public Works Administration; many schools, highways, and hospitals were built under this program.

The **Civilian Conservation Corps (CCC)** was founded during this period and would eventually employ over 2.5 million young men. Under this program, forest and conservation programs were undertaken. CCC workers were only paid a small amount (this money was actually sent to their families), but in a period where little work was available, many veterans of CCC programs later perceived the program as a godsend.

Roosevelt considered the bolstering of the industrial sector of the American economy to be a top priority. Falling prices had caused layoffs and the failure of many businesses. The **National Industry Recovery Act (NIRA)** was established to try to stop falling prices in industry. Under this act, committees of both owners and union leaders in each industry would meet to set commonly agreed on prices, wages, working hours, and working expectations. Unions and collective bargaining were accepted in industry as a result of the NIRA. Wages in many industries rose as a result of this; the thinking in the creation of the NIRA was that as wages rose, workers would then buy more, stimulating the economy and stopping the fall of industrial prices. The goals of this program were largely not met; as wages rose so did prices. As a result, many workers did not buy more, negating any benefit that rising wages were supposed to have.

Another body created by the NIRA was the National Recovery Administration (NRA), which was supposed to enforce the decisions of the NIRA. The entire process of the NIRA was declared unconstitutional in the 1935 Supreme Court case *Schechter* v. *United States*, although the agency had largely lost its effectiveness by then.

Two other important programs developed during the first hundred days. The **Agricultural Adjustment Administration (AAA)** attempted to stop the sharp decline in farm prices by paying farmers not to produce certain crops and livestock. It was hoped that this would cause the prices of these goods to rise. The **Tennessee Valley Authority** authorized the construction of a series of dams that would ultimately provide electricity and flood control to those living in the Tennessee River Valley. Thousands who had not had electricity in their homes now did.

The hundred days and the months that followed it provided some relief to those affected by the Depression, but by no means solved the basic economic problems facing the United States. The 1934 midterm congressional elections showed that most Americans favored FDRs policies, yet even in 1935 some 20 percent of all Americans were still out of work.

The Second New Deal

Many wealthy members of American society were appalled by the actions that Roosevelt took during his first year in office; he was called a traitor to his class, a communist, and far worse. Other elements of Roosevelt's brain trust (as well as his wife Eleanor) were advising Roosevelt to do even more to help the unemployed of America. As a result, the **Second New Deal**, beginning in 1935, included another flurry of legislation.

It was obvious that even more dramatic measures were needed to help farmers; many farms were still being foreclosed on because farmers could not make necessary payments on their land. The **Resettlement Administration**, established in May of 1935, offered loans to small farmers who faced foreclosure. In addition, migrant farmers had not been affected by previous New Deal measures dealing with agriculture; funds to help them find work were included under the Resettlement Administration.