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THE GREAT DEPRESSION OF 1929
IN THE UNITED STATES OF AMERICA:
Causes, Effects and Recovery.

Presented by:
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Academic Year
2009/ 2010

In memory of my grand-mothers,

Hadria and Houaria

DEDICATION

To those I love most:

My beloved parents;

My very dear son, Wassim; and my husband, Nabil;

And very affectionately;

My sisters and brothers;

My nieces and nephews;

My aunt Aicha;

my uncle Mohammed;

and their children.

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I am also greatly indebted to all my teachers for their constant efforts and encouragements during the university course.

My sincere thanks go to my friends who helped me in the elaboration of this work.

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ABSTRACT

The Great Depression was the worst and longest economic collapse experienced by the industrialised countries. However, the depression's impact on nations was different in various ways and degrees of intensity. In the United States of America, apart from the Civil War, the Great Depression was the most serious crisis that the country has faced. Indeed, the US nation had already experienced several depressions before, yet, none of them was as severe and as long lasting as the Great Depression. The downturn began in 1929 and lasted a whole decade during which large numbers of people lived in poverty and misery.

At first, economists and leaders thought that it was a correction of the market not worst than the precedent ones. Yet, data soon proved that this optimism was wrong. Moreover ,the crisis which resulted from a complex process involving both economic factors and political decisions marked the beginning of government intervention in economy and society as a whole; a new pattern in the United States where individualism and the free enterprise were the masters of the American life .

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INTRODUCTION

Booms and recessions are a permanent feature of the business cycle in capitalist economies. Capitalism is defined as an economic system in which a country's trade and industry are organized and controlled by the owners of capital ,the chief element being competition ,profit, supply and demand.[1] Under capitalism the government does not interfere in economics, it rather adopts a *laissez faire* policy.

From a purely economic point of view, a depression is a prolonged period of recession, or a significant and prolonged downturn in the economy which is characterised by declining business activities, falling prices, rising unemployment and increasing inventories.

Throughout its history, the United States economy has undergone periods of boom and bust, with short and sharp economic downturns. In fact, the last three decades of the 19th century in America had been a period of frequent economic recessions. However, the Great Depression that began with the 1929 stock market crash and lasted until 1939 was an unprecedented economic downturn which surpassed all previous economic crises of its kind. Indeed what happened after 1929 was much more different; all economic indicators fell to unprecedented levels to reach bottom in 1933 and did not reach their 1929 until the advent of the Second World War.

Moreover, no recession had hit American people as the Great Depression did. Millions of Americans who had been raised on the belief that hard work and discipline, and thrift would reward them, were suddenly unemployed. Shocked by their fall upon hard times which was actually due to events largely out of their control, they started to

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[1]-Oxford Advanced Learner's dictionary of Current English, A.S., Hornby, seventeenth impression, Oxford University Press,1983,p.125.

call into question the adequacy of self-sufficiency and individualism; two inherent qualities in the American life.

In addition, the reaction to this cataclysm brought permanent policy changes. The Republicans and Democrats have dominated American politics since the 1860s, Most elected officials were members of one of these parties. With their pro-business policies the Republicans dominated politics during all the 1920s,a period characterised by an extraordinary prosperity. Herbert Hoover, first as Secretary of Commerce an then as president from 1929 to 1933 symbolised the republican commitment toward unlimited prosperity which took root in a vast industrial expansion. Yet, the advent of the1929 crisis marked the end of this prosperous decade and destroyed the public confidence in the Republican Party whose response to the downturn was viewed as inadequate and totally indifferent toward individual suffering.

The Democrats, then , capitalised on the crisis and the failure of the Republicans to regain the control of the nation through the election of Franklin Delano Roosevelt in 1932.The two parties has different approaches in dealing with the crisis.

Generally, Republicans have tended to support limiting federal powers and protecting the authority of state and local governments, to take a conservative approach to taxation and spending, and to oppose government interference with free enterprise. In contrast, Democrats have tended to take a more expansive view of the powers of the federal government into what historically had been private decision making, to support raising and spending money to address social ills on a national basis, and to favour federal regulation as a means to improve business practices and economy as a whole.

To explain the Depression contemporary economists were divided. While , some observers called the Depression an inevitable failure of capitalism and attributed the recession to the self-equilibrating powers of the market, arguing that it was simply a question of time before wages and prices adjusted fully enough for the economy to return to full employment , others argued that the Depression was the result of overinvestment during the 1920s and that the best remedy for the situation was to let the Depression run its course so that the economy could be purified from the negative effects of the false expansion.

Recent researches, however, stress that the Great Depression is probably one of the most misunderstood events in American history. It is generally cited as being the result of unregulated capitalism, and that only a massive economic regulations and other government interventions, can avoid such downturns. In addition among the misconceptions surrounding the Great Depression are that the stock market crash of 1929 was the only cause of the downturn of the following decade.

This work is an attempt to explain the mechanism of the Great Depression and its impact on the American society. It will try to provide an answer to the following questions: How did the Roaring Twenties shape the causes and effects of the crash? Was the Crash of Wall Street the only cause of the Depression? If not what were then the other causes of the Depression? How were the American people impacted by this downturn? What were the policies undertaken by the government to lift the United States out of Depression? And to which extent did these policies change the structure of the economic and social policies in the United States?

In this respect the research paper will be divided into three chapters .Chapter one will give a portrait of the American economy and society during the decade that preceded the stock market crash i.e. the twenties .The second chapter will show how the 1929 stock market crash and other economic factors interacted to pave the way to the Great Depression as well as its impact on the American economy and society. The third chapter will be devoted to the response of the government to the crisis. It will first examine how President Hoover reacted to the crisis and then it will examine President Roosevelt's New Deal and the attempts of his administration to overcome the Depression. It will be also an attempt to analyse and debate upon the efficiency of the two governments' responses.

CHAPTER ONE

THE ROARING TWENTIES:

From Prosperity to the Great Crash

When studying the Great Depression and its effects on the United States, many historians choose the first World War as a starting point of their research. The reason for that is the importance of the repercussions of the conflict on the economies of the countries involved in it among which the U.S.A.

Participation in the war had made the United States a major player in the world economy; the foundations of large-scale corporate and modern state were firmly established [1].

The "Roaring Twenties", unlike World War I, were not only a decade of brisk economic growth and expansion, but also an era of important social changes. Americans went toward greater individualism. The emphasis was on getting rich and enjoying new ways of life, new inventions, and new ideas. The traditional values of rural America were being challenged by the spirit of the "Jazz Age"[2], symbolized by what many considered the shocking behaviour of young women

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[1]-James, A. Henretta et al , America's History ,volume 2 , Worth publisher ,New York ,third edition, 1997,p .739.

[2] -In music the twenties were notable for the rise of jazz "the most important musical expression that America has achieved ".It has originated among black musiciens in the south particularly in New Orleons.........The new music first became widely known when jazzmen moved with the general black migration northward during and after World War I . The great trumpet player Louis (Satchmo) Armstrong,for example,went from New Orleons to Chicago in 1922 to join a band that helped spread jazz through phonograph recordings. Frank, Freidel, America in the the Twentieth Century ,Alfred A.Knopf, INC ,New York ,fourth edition ,1976,pp128-129.

who wore short skirts and makeup, smoked, and drank.

On the other hand, falling farm prices ,labour agitations (because of low wages and unemployment), insufficient consumption , the closing of foreign market ,and the overextension of credit as well as a big bull market[1] were all symptoms of a sick and unstable economy .

1-The 1920s Economy Under the Republican Leadership:

In order to deal with the American economy during the twenties, a brief survey of the Republican ascendancy during that era imposes itself. After the physical and political collapse of Woodrow Wilson (President of the USA from 1912 to 1920) the Republicans were in a position to regain the White House.

In 1920, the Democratic platform led by Governor James M. Cox of Ohio with the Assistant Secretary of the Navy Franklin D.Roosevelt called for the ratification of the Wilsonian programme which meant the participation of the United States in the League of Nations whereas the Republicans led by warren G. Harding (1865-1923) and Calvin Coolige(1872-1933) promised a return to “normalcy” (meaning normality) which meant a return to the good old days when the government didn’t bother the businessmen with unnecessary regulations, but provided them with fat tariffs [2] .

In fact ,Harding caught the mood of that times and expressed it clearly when he pronounced his famous sentences :

> *America’s present need is not heroic but healing; not nostrums but normalcy; not revolution but restoration........not surgery but serenity* [3]

The country wanted to get back to business and to have a rest from World War I disruptions. Consequently W.G. Harding and C .Coolidge won at the election of 1920

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[1]-A bull market is market characterized by rising prices (The opposite, a market characterized by falling prices, is called a "bear market."). S.E.,Steigeler and Glyn, Thomas A Dictionary of Economics and Commerce, Great Britain , Laurence Urdang Association LTD , 1976, p 54 .
[2] - Frederick Lewis , Allen , Only Yesterday , Bantom Book ,INC,New York, Eleventh edition ,1959, p 29
[3]- Ibid.p30.

by a margin of sixteen million to nine million marking a new Republican era that would last twelve years.

The newly elected President surrounded himself with, what he thought, the best qualified men to help him guide the government. He named Charles Evans Hughes at the head of the State Department, Albert B. Fall Secretary of the Interior, Henry C. Wallace was the link between farmers and government agencies, and Andrew Mellon[1]was named Secretary of the Treasury. Yet the most active member of Harding's administration was the Secretary of Commerce Herbert Hoover [2].However , the Harding's cabinet was known as one of the most corrupt administrations .Many of the political associates of the President were involved in what later will be known as the "Harding Scandals".

Among the politicians implicated in these scandals was Charles Forbes , the director of the newly established Veterans Administration of 1921, who had stolen $250 in federal funds .Another scandal ,and the most famous ,was the one over the Teapot Dome[3] . In the summer of 1923, when a senate investigation uncovered this scandal, Harding was seriously ill and depressed . He never had to face or to explain this corruption for he died in August of the same year .

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[1]-No appointment could have been more reassuring to old Guard Republicans .Mellon came from Pennsylvania and his outlook was entirely predictable . He belived in a high tariff ,low taxation ,the greatest freedom to get and spend wealth ,and in having a friendly government in Washington to back up big business leadership when necesary . He had no time for labour unions ,no interest in farmers ,no concern for consumers . As to the business cycle ,he was a fatalist ,regarding booms and slumps as natural phenomena which it was a waste of effort to try to control.......... He persisted at the treasury throught the twenties –indeed until 1932. So he became an obvious target for the wrathof all those who blamed the Republican administrations of the twenties for the Great Depresion . Hugh , Brogan , the Penguin History of The United States of America ,Penguin Books, London ,third edition, 2001,p 492

[2] - Herbert Hoover (1874-1964): was born in a lower village in 1874,and he grew up in Oregano . He enrolled at Stanford University when it opened in 1891, graduating as mining engineer.After the USA entered the war President Wilson appointed Hoover Head of the Food Administration .He succeeded in cutting consumption in foods needed overseas and avoided rationing at home . After the Armistice, Hoover , a member of the Supreme Economic Council and Head of the American Relief Administration organized shipments of food for starving millions in Central Europe .After capably serving as Secretary of Commerce under President Harding and Coolidge, Hoover became the Republican Presidetial nominee in 1928 . Encyclopedia Encarta ,United kingdom,Deluxe edition , C.D.Rom ,2001

[3] -The most spectacular fraud involved the rich naval oil reservesat Teapot Dome ,Wioming ,and Elk Hills ,California. Secretary of the Interior Fall persuaded Harding to transfer the oil reserves to his department,then secretly leased them to Harry F.Sinclair and Edward L.Doheny. .Fall wha had been in financial straits became ,suddenly affluent .An investigation headed by Senator Thomas J.Walsh of Montana during the fall and winter of 1923 uncovered the reason .Sinclair had loaned Fall $308,000,in cash and government bonds and a herd of cattle of his ranch;Doheny had loaned him $100,000,more. In 1929 Fall was cinvicted of bribery ,fined $100,000,and sentensed to a year in federal penitentiary . Frank, Freidal, Op.cit.,p.141.

After Harding's death, Vice President Calvin Coolidge moved to the White House. Just like Harding, Coolidge largely believed that prosperity resulted from the least possible government intervention in business and economy. However, where Harding had tried to balance the interest of both labour, agriculture and industry ,Coolidge focused only on the industrial development putting aside labour and agriculture. In fact Coolidge had embraced the orthodox creed of business. "The business of America is business" he said, "the man who builds a factory builds a temple .And the man who works there worships there" [1].

During the 1924 election Coolidge succeeded to distance himself from the Harding Scandals .He also took the initiative of leading the Republican Party and became the party nominee for the Presidency.

To run the 1924 election, the Democrats had to choose between Governor Alfred E.Smith of New York who had the support of northern urban politicians, and WilliamG.Mc Adoo of California who had the support of western and southern Democrats. Finally the delegates chose John W.Davis, a Wall Street lawyer who had served as a West Virginia congressman and an ambassador to Great Britain.

Besides, a third party was leading a vigorous campaign. This was the Progressive party led by Senator Robert M.La Follette who had the support of both the reformers, the labour leaders and the Socialist party .The Progressive platform called for the nationalisation of railroads, public ownership of utilities, and the right of congress to overrule Supreme Court decisions .It also favoured the election of the president directly by people (voters) rather than the electoral college. During the campaign Coolidge focused on La Follette arguing that he was a dangerous radical who would turn America into a "communistic and socialistic state"[2]. Finally , the Republicans won the election with Coolidge receiving the majority of both popular and electoral college votes .

When W.G. Harding died business was already booming .Yet the American

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[1]- Kenneth.C, Davis , Don't Know Much About History ,Avon books, New York ,1990.p.252 .
[2]- George B.,Tindall, and David E., Shi , America. p.688 .

industry knew its brief triumphal march during the seven fat years from 1923 through 1929[1]. Therefore, America seemed to prosper under the Republican leadership. Nevertheless, the "Coolidge prosperity" was mainly the result of the new and big industries that largely spread during the twenties.

As a result, this decade was an era that marked the shift of the United States from the nineteenth-century Industrial Revolution symbolized by railroads to the twentieth century revolution in technology.

The first, and probably the most important, innovation that defined that shift was the invention and development of the automobile and the airplane .The growth of the automobile industry led to a multitude of changes in the American economy .The mass market for cars pushed the auto-makers for instance: General Motors ,Ford and Chrysler in the front line of American business .By 1929 the automobile industry was the largest of the country . The production of cars had risen from 1,905,500 in 1920 to 4,455,100 in 1929 [2].

Another point was that the automobile industry stimulated many other industries. Since the demand for materials which went to the making of automobiles was growing up, both steel, petroleum, chemical, rubber and glass industries expanded and profited from this boom .Consequently ,in 1929 , 3,7 million workers directly or indirectly owed their jobs to the automobile[3] .

The second industry that developed during the twenties was the construction industry. As business men called for bigger and better offices and more urban population called for new apartments big investments were made in this field, providing more employment and stimulating the American economy as well.

In addition, the automobile industry and the new way of life that it engendered stimulated construction. In fact, the 1920s building boom was the first to respond to the potential of the automobile. As other lands were now accessible, the American people

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1- Frederick Lewis, Allen , Op.cit., p.138.

2- Hugh , Brogan , Op.cit.,p. 494.

3- James A., Henretta et al , Op.cit., p. 749.

looked for new ways of life, far from the urbanised and industrialised cities. Thereby, by the middle years of the decade there was a boom of suburban lands outside nearly every American city. Yet, this growth was not limited to the suburb; another example of real-estate exchange and construction developments was the Florida boom. The increase of construction projects in this state reflected what was happening in all the country, nevertheless, the Florida boom is considered as the most spectacular of a series of land and building booms during the post war decade.[1] In fact the construction boom was of such a proportion in this state that it transformed its whole local economy .

The radio industry had also flourished during the twenties .It was probably less important than the automobile industry. Nevertheless from the first broadcasting to the public in1920 to the end of the decade, the sale of radio and accessories knew an important increase. The following table shows the important increase in radio sales during the decade:

Table 1

The Amount of Radio Sale during the Twenties

Year	The amount of radio sales
1922	$ 60,000,000
1923	$ 136,000,000
1924	$ 358,000,000
1925	$ 430,000,000
1926	$ 506,000,000
1927	$ 425,600,000
1928	$ 650,550,000
1929	$ 842,548,000

Source : Frederick Lewis, Allen , Op.cit. p. 116.

Note : In 1927 ,there was a dip in national prosperity which systematically affected the sale of almost every popular commodity among which radio[2] .

[1]-Frederick Lewis, Allen , Op.cit.,p.201.

[2]-Economic growth during this period was mitigated only somewhat by three recessions. According to the National Bureau of Economic Research (NBER) business cycle chronology, two of these recessions were from May 1923 through July 1924 and October 1926 through November 1927. Both of these recessions were very mild and unremarkable. In contrast, the 1920s began with a recession lasting 18 months from the peak in January 1920 until the trough of July 1921. Christina D. ,Romer , World War I and the Postwar Depression: A Reappraisal Based on Alternative Estimates of GNP found in : *Journal of Monetary Economics* 22, no. 1 ,1988 , pp 91-115.

In addition to automobile, construction and radio, other industries and therefore products were introduced into the American market. Among these were: refrigerators, cigarettes, chemical preparations, and electrical devices of various sorts. Another giant business of the twenties was Hollywood, stimulated by the popularity of the cinema, this newly born business also took wing .

However, while the automobile, construction, and radio industries were booming, negative patterns still existed in the American economy. For instance, the situation in

the pre- war industries was considerably bad. The railroad industry, for instance, was hard hit because the railway was replaced by the roads.

Then the textile firms left New England for cheaper labour market in the south but continued to suffer from a decrease in demand and overproduction .Mining workers were working for very low wages in exchange for high production however, Coal mining was especially hit because of the competition of new energy sources like hydroelectric power, fuel oil and natural gas with coal.

Moreover, agriculture, which represented one quarter of the American economy, had a lot of difficulties. American farmers were already in an economic recession during the 1920s, therefore they did not profit from the prosperity of the decade. Some scholars agree that the fall in prices that affected agriculture after WWI was the worst collapse yet experienced by American farmers, and throughout the rest of the decade agriculture remained depressed relative to the nonfarm economy .The following table shows how farm prices were constantly below the costs of living throughout the twenties :

Table2

The Decline of Farm Prices after WWI

	Index of farm prices	**Index of the cost of living**
1914	105	100
1916	100	103
1918	190	135
1920	200	190
1922	115	170
1924	114	175
1926	160	180

Source: Data are from David, Orden, International Capital Markets and Structural Adjustment in U.S. Agriculture ,found in : American Journal of Agricultural Economics, Vol. 72, No. 3 (Aug., 1990), pp. 749-754 Published by: Blackwell Publishing on behalf of the Agricultural & Applied Economics Association ,Stable URL: http://www.jstor.org/stable/1243049, figure 1,p.751.

What happened was that the USA increased her agricultural output during World War I in order to sustain the allies. Even in the post –war era, she continued to supply the European needs by using several extensive and brutal methods of the land exploitation .[1]

Yet, The collapse of farm prices during 1920-21 marked the beginning of a long period of decline in the agricultural sector. The factors primarily responsible for the post-war price deflation were over stimulated agricultural production resulting from high prices during the war and good crop conditions in 1920, and the decline of the European demand for American agricultural goods.

[1]- J.H.,Kirt , Agriculture and the Trade Cycle,Penguin Books,LtD, New York ,1939,p.99.

As a response to this recession an emergency legislation restoring tariffs to their high pre-war levels was enacted in June 1921. This post-war tariff legislation raised domestic farm prices. Nevertheless this policy had a depressing effect on farmers because it slowed down agricultural exports.

Besides, the USA was not the only country with a food surplus. By the late of the decade, European agricultural products reappeared in the international market. Consequently, farmers found themselves competing in an over-supplied international market. This accumulation of unsold stocks accentuated the fall of prices. As a result the price of wheat dropped 40%,corn prices fell 32% and hog prices 50 %.[1] Thereby, as prices fell ,farmers were often unable to sell their products for a profit.

These new circumstances became essential factors in shaping the agricultural policy. Thus, in the absence of a government subsidy and a tariff reductions, it was urgent to seek relief in specific measures of support for agriculture. To obtain higher prices and incomes, farmers, who were seen as the least organized group in an economy becoming affected more and more by collective action, sought improved credit agencies, lower costs for farm-to-market transportation, strengthened cooperative marketing, and extension of the War Finance Corporation to provide export credits and credit assistance to farmers.

To ameliorate the farmers' situation, the Farm Bureau Federation sought government Price support through the parity price of the McNavy-Haugen bill[2]. This was all in vain for although Congress passed it in both 1927 and 1928, President Coolidge vetoed it as being preferential legislation contrary to the principles of *laissez faire* .

Yet even the farmers shared the business outlook of the era .Many farms ,mainly corporations, became larger, more efficient, and more mechanized .By 1930 about

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1- James A., Henretta et al , Op.cit., p.741.

2-One price-raising scheme was that the price for corps shold be raised to a "fair axchange value" based on the price of the corps during ten prewar years as compared with the general average of all prices during the same period .The means of obtaining parity for farmers would be for the government to buy up the surplus at the high American price and sell it abroad at whatever it would bring on the world market. Frank, Freidal, Op.cit., p.150.

13 percent of all farmers had tractors[1] . Thus, The large landowners who use expensive machinery enjoyed satisfactory incomes.

Meanwhile ,though the income of most Americans increased during that time ,the income of the small farmers drastically declined. The poor farmers suffered to such a degree that for the first time in American history the farm population began to shrink. It was approximately 1,500,000 smaller in 1930 than it had been in 1920[2]. Hundreds of thousands of farmers and their families abandoned their lands seeking for better conditions of life in the cities.

The big business of the era invaded the domestic market with vast quantities of consumer goods. As a matter of fact the decade of the 1920s saw major innovations in the consumption behaviour of the Americans.

On one hand, many goods which were available only for the affluent, became accessible to the working classes. On the other hand, the development of credit instalment during this period led to a considerable growth in the purchase of automobiles, refrigerators, radios and other such durable goods. These new ways of consumption fed the optimism of investors and gave them an excessive confidence in prosperity.

It is important here to underline the role of the Secretary of Commerce Herbert Hoover in the standardization of the products through his trade-association movement. Hoover's aim was to stabilize business and guide Americans to higher standards of living.

In this respect, Hoover sought to design a fiscal and monetary strategy to counter fluctuations in aggregate economic activity. Working with a group of economists, Hoover developed a macroeconomic policy based on high wages and a fair distribution of income, a free exchange of technical information between industry and the government, public works during times of economic downturn, and a high tariff[1] to protect American manufacturers and farmers.

1- George B., Tindall and David E.,Shi,Op.cit.,p.692.
2- Hugh , Brogan , Op.cit.,p. 503.

Accordingly, he used these associations in gathering information on everything: sales, purchases, production and prices so that this information allowed his department to establish plans with more confidence. Thereby, predictable coasts, prices, and markets contributed in more stable employment and wages and consequently in increasing consumption.

It was obvious that the Republican administrations of both Harding and Coolidge favoured business at the expense of agriculture. However, the economic policy that they undertook, for instance tax cuts and the high tariffs[1], were not without a negative effect on United States export and the economy as a whole.

To sustain business and stimulate consumption, Secretary of the Treasury Mellon promoted a large policy of tax cuts. Consequently the rate on personal income decreased from 65% to 20% [2]. Moreover the Revenue Act of 1926 [3] had largely contributed in the concentration of wealth in the hands of the wealthy people ;a negative aspect of the US economy that will be seen later on .

In addition to Mellon's policy, the enactment of the Fordney –McCumber tariff in 1922 by the congress created other complications. This tariff was meant to protect agriculture as well as chemical and metal industries from foreign competition. Nevertheless, the Tariff gave more protection to industrials than to farmers .It worked on the principle of compensation: when foreign firms had costs of production lower than their American competitors, the tariff should be high enough to offset the differential[4]. Thereby, the imposed trade barriers on imports led to a restriction of competing import and therefore to higher prices in the domestic market .By the late of the decade, about sixty countries had followed the American example in raising their tariffs.

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[1]-A tariff is a tax or duty on imports and during that period ,many countries relied on heavy customs-tariffs to protect their industries by restrecting supplies coming from abroad . D,.,Beggs,S.,Fisher, ,R.,Dornbusch , Economics, U. K, McGraw –Hill Book, LTD, 1984 ,p.719.

[2]- GeorgeB., Tindall, and David E., Shi , Op.cit.,p.683.

[3]-The Revenue Act extended further benefits to high income groups by lowering estate taxes and repealing the gifttax.Ibid .p.683.

[4]- Frank, Freidal, Op.cit.,p.139.

While America was prospering under Coolidge leadership the later chose not to run for President in 1928 .As a matter of fact, Hoover, the third giant of the Republican administration, led an active campaign for the Republican nomination .Thus, his popularity as head of the Food Administration during the WWI and as Secretary of Commerce under Harding and Coolidge made that he easily won the nomination. In his acceptance speech for the Republican party nomination for the presidency, Hoover had said:

> *We in America today are nearer to the final triumph over poverty than ever before in the history of any land.........given a chance to go forward with the policies of the eight years ,we shall soon with the help of God be in sight of the day when poverty will be vanished from this nation*"[1]

Through this speech ,it was obvious that Hoover's platform was a continuity to the Republican policy of the era which meant that it took credit for prosperity, for instance ,tax and debts reduction and higher tariff ,and completely rejected the McNavy-Haugen programme of farmers.

For his part, Governor Alfred E.Smith of New York faced no effective opposition within the Democratic party and won the nomination. The Democratic platform did not propose a significant departures from the position of the Republican party. However it included a plank offering farmers the McNavy-Haugen plan .

More important Smith promised to relax the Volstead act for enforcing the Eighteenth Amendment and thus brought the Prohibition[2] to the forefront of the campaign. Yet, the major handicap to Smith remained his Catholicism for many Protestant Americans were not ready to have a Catholic President.

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[1]-Frank, Freidal, Op.cit.,p.161.

[2]- Proposed by congress during WWI the Eighteenth Amendment to the Constitution prohibited "the manufacture ,sale,or transportation of intoxicating liquors"within the United States .It also cut off the import and export of beer ,wine,and hard liquor .In January 1919,the amendment became part of the constitution when Nebrasca voted in favour of ratification-only Rhode Island and Connecticut failed to ratifay the amandment-and ayear after it became the law of the land when Congress passed the Volstead Act to enforce the law . Kenneth.C .,Davis , Op.cit., p.256.

Thus, in the election Hoover won in the third consecutive Republican landslide receiving 58% of the popular vote to Smith's 41%, and 444 electoral votes to 87 for Smith[1] ,and above all vindicated the Republican prosperity .

Indeed when Americans elected Herbert Hoover President, the mood of the general public was one of optimism and confidence in the United States economy. Most people believed that if they voted for a Republican , national prosperity would continue indefinitely.

Nevertheless, the Democrats' defeat marked important political changes for the party was in the way of having a new identity as the party of the urban masses, unhappy farmers and ethnic groups .

2 -<u>Flaws in the Economic Foundations:</u>

While the Americans were enjoying the prosperous years of the Roaring Twenties, many weaknesses remained present within the American economy.

The misdistribution of wealth in the 1920s existed at many levels. Money was distributed unequally between the rich and the middle-class, between industry and agriculture within the United States, as well as between the United States and Europe. In addition, the bank system of that time was neither strong nor prudent to accompany the economic and social changes of the era .

a / <u>Unequal distribution of wealth and income:</u>

Despite rising wages overall, the unequal distribution of wealth remained a characteristic feature of the American economy during the twenties .

A major reason for this large and growing gap was that during the years between 1922 and 1929 , the physical production of the agricultural ,manufacturing ,mining , and

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[1]- James A., Henretta et al , Op.cit., p.764.

construction industries increased 34% and between 1920 and 1930, output per man hour increased by 21% [1]. However, the decline of labour union[2] after WWI made that wages were gradually rising, but not as fast as production and productivity. Thereby, as production costs fell quickly, wages rose slowly, and prices remained constant, the benefit of the increased productivity went into corporate profits. Consequently, there were some extremely rich people, and huge numbers of extremely poor people. The following statistics illustrates the growing gap in income of the era:

in 1929,according to the Brookings Institution, only 2,3 per cent of Americans families had income over $10,000 a year. Only 8 per cent had incomes of over $5,000.No less than 71%had incomes of less than $2,000 .More than 42%had incomes of less than $1,500 .And more than 21% had incomes of less than $1,000 a year . That same top 0.1% of Americans in 1929 controlled 34% of all savings, while 80% of Americans had no savings at all[3]. Thus, in the 1920s, 5% of people who received incomes got 30% of the total of all incomes[4].

In addition, as it has been mentioned before, the federal government also contributed to the growing gap between the rich and middle-class. The administrations of both Harding and Coolidge favoured business, and as a result the wealthy who invested in these businesses. As a matter of fact, the rich were getting richer much faster than the poor were getting less poor[5].

Moreover, while new industries were prospering in the 1920s, others , agriculture in particular, were considerably declining. Consequently, the average annual income for all Americans was much higher than the average annual income for

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[1]- Frederick Lewis, Allen , The Big Change :America Transforms Itself 1900-1950,Harper and Row, Publishers, NewYork and Evanston ,1952,p.139.

[2]-After an angry wave of strikes immediately after the war ,unionism languished; total trade-union membership in the United States dwindled from over five millions in 1920 to less than four millions in 1927 and three and third millions in 1931. Frederick Lewis, Allen , The Big Change , p.140.

[3]- "At 1929 prices," said the Brookings economists , "a family income of $2,000 may be regarded as sufficient to supply only basic necessities ." One might reasonably interpret this statement to mean that any income below that level represented poverty .Practically 60% of American families were below it –in the golden year 1929! Frederick Lewis, Allen, The Big Change , p.144.

[4]- Dietmar, Rothermund , The Global Impact of the Great Depression 1929-1939, routledge , 1996,p.48.

[5]- John kenneth, Galbraith , The Great Crach 1929,Avon books,fourth edition,1979,p.2.

someone working in agriculture. In 1929 the yearly income of a farmer averaged only $273 , when it was $750 in other occupations[1] .

It is important to understand that for an economy to function properly; total demand must equal total supply. Meanwhile the economic prosperity of the 1920s was dependent on the high investment and luxury spending of the wealthy. However, both the high spending and high investment of the time were susceptible to economic fluctuations. They were much less stable than people's expenses on daily necessities like food, clothing, and shelter.

The car industry, for instance, was the leading industry but as cars were expensive the demand of them was limited by the consumers' purchasing power. In addition as they were very durable consumer goods there was also a saturation of the market.

Consequently, Americans produced too much and bought too little .This imbalance between production and consumption had a negative impact on economy. For what happened in the 1920s was that there was an oversupply of goods while the purchase power of people was declining.

b/ Unequal distribution of corporate power.

Misdistribution of wealth in the United States was not limited to only socioeconomic classes, but to entire industries.

As it has been mentioned before, most of the industries that were prospering in the 1920s were in some way linked to the automobile industry or to the radio industry. Consequently this led to an unequal distribution of wealth between the different industries and the concentration of the capital in few ones. Thus, the American economy was essentially dependent upon automobile and radio industries. This meant that if those industries were to slow down or stop, the entire economy would be affected.

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[1]- James A., Henretta et al , Op.cit., p.771.

Another feature of the twenties was the business consolidations and mergers. During WWI, many small companies which produced the same or related products merged into huge corporation .The purpose of such a movement was to reduce and eliminate competition and also to control prices and production.

Nevertheless, the mergers that occurred in the twenties were not supposed to eliminate competition but rather the incompetence, somnambulance ,naiveté, or even the unwarranted integrity of local management[1].

As a result local companies were combined and united in great regional or national corporations .In the case of public utilities, this was achieved through the holding companies[2].This movement of consolidation was also noticed at the financial level .

Thereby ,by the end of the decade 200 of the biggest corporations controlled almost half the nonbanking corporate wealth in the United states ,1% ,or 250 of American banks controlled almost half the nation's banking resources[3] and chain stores sold more than a quarter of the nation's food and general merchandise[4] .

Thus these mergers helped to sustain the trend toward concentration of business and wealth which meant that if just a few companies or banks went under, the whole economy would suffer.

c/<u>Foreign balance of payments:</u>

It is of equal importance also to take into account the new international order of the era and its implications in the new American economy . During the First World War, European economies had been greatly destroyed. Meanwhile America had financed the war and was issuing loans for its reconstruction.

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[1]- John kenneth, Galbraith, <u>The Great Crach 1929</u>,Avon books,fourth edition, 1979, p.39.
[2]-These bought control of other holding companies which controlles yet other holding companies,which in return ,directly or indirectly through yet other holding companies ,controlled the operating companies .Everywhere local power ,gas,and water companies passed into the pocession of a holding-company system.Ibid,pp39-40.
[3]-James A.,Henretta et al , Op.cit., pp. 744-745.
[4]-Freidal,Frank,Op.cit.,p148.

This capital export made that the United States had emerged from the war as the major creditor and financier of the European countries. Therefore, these new conditions gave the most important role to America in the world market.

In fact, Germany had to pay reparations to the Allies; France and Great Britain had to repay wartime loans to the United States. Yet these payments relied mainly on American private loans to Germany. Nevertheless, this solution was not appropriate[1]. According to economists, it would have been better if America had helped the development of European countries by importing their goods.

American loans to Germany during the 1920s financed reparation payments that in turn serviced war debts of the Allies. The private loans cycled back through reparation and debt payments made it difficult for European countries to sell their goods in the US market which in return did not provide large markets but U.S. exports, but the capital outflow was sufficient to finance a small U.S. trade surplus.

However, this cycle could not go on indefinitely for European repayment of war debts necessitated a U.S. trade deficit. But American interests, including many farm groups, were myopic on trade issues and resisted importation of European goods which made it difficult for European countries to pay their war debts.

In 1924, France, Great Britain and Germany joined with the United states , in the Dawes Plan[2] to improve and promote European financial stability .Nevertheless,

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1- In his book"The Economic Consequences of the Peace" John Maynard Keynes had already pronounced that this policy was unsustainable for Germany and counter- productive for the world. Andre Gunder Frank ,Crash Course, Source: Economic and Political Weekly, Vol. 22, No. 46 (Nov. 14, 1987), pp. 1942-1946 Published by: Economic and Political Weekly Stable URL: http://www.jstor.org/stable/4377724 Accessed: 24/06/2009 07:12

2- The Dawes Plan ,named after the American, General Charles G. Dawes ,who on April 9,1924,had headed committee of experts which recommended that Germany currency would be stabilised on a gold basis ad that Germany had to pay an annual sum of reparations rising from 1,000 million marks in the first year to 2,500 million marks in the fifth year .In addition an international loan of 800million marks was recommended. Britain and France agreed that the Daw Plan should be put into operation and that an inter- allied conference would be held to settle the procedure. The United States, Belgian, Italian, Japanese and certain other governments were invited to attend the conference which was opened in London on July,1924.After some difficulties, a sufficient agreement was reached and the conference was closed on August,1924. David , Thomson, England in the Twentieth Century, Great Britain, Penguin Books LTD,p.100.

this single initiative was not enough for such an achievement .

In addition, as the international trade was regulated by gold, the Republican administrations of the 1920s insisted on payments in gold bullion. Since the European gold had flowed into the U.S. in great quantity, the world's gold supply came to be limited and by the end of the 1920s, the United States itself controlled much of the world's gold supply. Then, because the value of the countries' currencies was related to the amount of their reserves of gold, it was difficult for European countries to pay their debts for they couldn't send more gold without completely ruining their currencies. Consequently they had to pay their debts in goods, services and Dollars.

Besides, the high tariff policy of the Republican administration prevented the European countries from selling their goods in the United States and thus from getting enough money to buy American products or to pay their debts.

As a result, the debts' payment went through huge total of private American loans to Germany .Thus, the European countries were paying the war debts with the money that Americans were lending to the German. Thereby, what seemed like a beginning of recovery from the Great War was in fact an immense accumulation of debts, which, by the late 1920s, made the international economy and mainly the financial sector extremely unstable.

d/ <u>Bad banking structure:</u>

Many financial and economic historians have stressed that bank involvement in industrial and commercial finance during the twenties was not insignificant, and that it evolved in parallel to the rapid economic development that the USA were undergoing.

During this time, banks were opening at the rate of four to five per day. Through such a period of imbalance, the American economy tended to rely upon two things in order to keep prosperity: luxury spending and investment from the rich, and credit. The latter was either for consumption, for industries or, more important, for buying actions in the stock market .This meant that the solution to the problem of the vast majority of the population not having enough money to satisfy all their needs was to let those who wanted goods buy products on credit.

Thus the concept of buying now and paying later made that the majority of durable consumer goods were bought on credit. As a result, between 1925 and 1929 the total amount of outstanding instalment credit more than doubled.

Meanwhile, banks were opening without federal or state restrictions to determine how much start-up capital a bank needed to open. Thus, most of these banks were highly insolvent.Moreover, banks did not work together with the Federal Reserve System (Fed)[1]. Instead of being used to strengthen the central bank so they could ,in time of trouble come to the rescue of their weaker partner, they remained isolated the ones from the others. Indeed, the vast wealth of cash and credit was dissipated into thousands upon thousands of small, amateurishly managed, and largely unsupervised banks and brokerage houses[2].

Consequently, even during the days of Coolidge prosperity banks closed at the rate of two per day. This meant that every year a considerable portion of American earnings and savings went down. In the first six months of 1929, 346 banks failed in various parts of the country with aggregate deposits of nearly $115million[3].

3- The Stock Market Boom and Crash:

The “Bull Market” was another aspect of the American economy during the twenties. Thus, Wall Street, home of the New York Stock Exchange[4] was a symbol of the prosperity of the era. Some economists stressed that the boom of the stock market during that days was nothing else than the result of the economic growth that the

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1-The Federal Reserve System is the US central bank which was established in 1914 as a result of the 1907 crisis when the National Monetary Commission was set up to find out what was wrong with the American banking system .Its report in early 1912 led directly to the establishment of the Federal Reserve System. W.J.,Baumol and A.S.,Blinder,Economics :Principles and Policy ,USA,Harcourt Brace Jovanovich ,INC,1982,p269.

2- Hugh, Brogan, Op.cit.,p.507.

3- John kenneth, Galbraith , Op.cit.,p.159.

4- The New York Stock Exchange is a highly organized market for dealing are also jobbers ,each jobber dealing with a particular group of securities such as mining shares, industrial etc .The broker having received instructions from his client ,approaches a jobber and asks his price. The jobber without knowing whether the broker will buy or sell quotes two prices-buying and selling prices –the difference being the jobber’s turn of profit .The existence of stock exchange means that is generally possible to buy or sell at any time at the market price .Robin,Almot ,Guide to World Markets,London ,BoxtreeLimited,1992,p10.

country was undergoing.

For his part, J.K.Galbraith and other scholars argue that a bubble in the stock market was formed during the rapid economic growth of the 1920s.In this respect, they emphasize the irrational element-what they called the mania-that induced the public to invest in the bull market.

The rise in the stock market, according to Galbraith, depended on "the vested interest in euphoria [that] leads men and women, individuals and institutions to believe that all will be better, that they are meant to be richer and to dismiss as intellectually deficient what is in conflict with that conviction."[1] This strong desire of buying stocks and making profits was then fuelled by an expansion of credit in the form of brokers' loans that encouraged investors to make more and more transactions .

Indeed ,the widespread belief that any one could get rich led many Americans into the stock market . A financier captured this attitude in an article that he entitled “Every one Ought to Be Rich”. “Invest $15 a month in sound common stock”, he advised ,and in twenty years the investment will grow to $80,000”[2].

The freeing of capital from government use to commercial use after WW I caused commodity prices to go up. As a result, rising prices typified the stock market of the twenties. In 1920, Benjamin Strong of the US Federal Reserve Bank of New York raised interest rates sharply to prevent inflation3. This led to an economic recession and the stock market to fall. Yet the stabilisation of prices that followed made more money available and thus the stock market began to set up again.

Then, an international event that also contributed in providing the stock market with funds was the coming back of Great Britain to the Gold Standard[4].

[1]- John kenneth, Galbraith , Op.cit.,p.53.

[2]- James A., Henretta et al , Op.cit., p.770.

[3]-Inflation is a condition where the volume of purchasing power is persistently running ahead of the utput of goods and services available to consumers and producers ,with the result that there is a persistent tendancy for prices and wages to rase that is for the value of the money to fall .J.L.,Hanson ,A Dictionay of Economics and Commerce,London ,McDonalds &Evans LTD ,1974,p.270.

[4]-The gold standard is the monetary unit which consists of a fixed weight of gold at a definite fineness;the price of gold ,therefore ,in terms of national currency is fixed ;and there is acomplete freedom to buy or sell gold ,to import it or export it . G.F., Stanlake,Introductory Economics ,London,Longman group, LTD, 1989, p.296.

In1925,Great Britain , under the aegis of the Chancellor of the Exchequer Winston Churchill, decided to reinstate the Gold Standard at pre –WWI relationship between gold, dollars and the pound ,which meant an overvaluation of the pound. Thus with moral support from the US Treasury, Strong chose to help strengthen the value of the Pound by depressing the value of the US Dollar ($4,86 for 1 pound) . This action undermined the British economy for the costly pound and the post-war inflation led to trade deficits and substantial gold outflows towards the United States.

In the meantime , the low prices of American goods made the USA a rich place in which to buy and invest .Consequently ,this attracted more foreign investors which in return provided more capital and caused the stock market to boom. Yet 1927 was the turning point of the increase of the stock prices as well as the number of the new investors .This was mainly due to the easy money policy undertaken by the Federal Reserve to help the depressed Europeans.

In fact during this year England ran in troubles with her Gold Standard and pleaded -with Germany and France- for easier money in New York .As a matter of fact the Federal Reserve lowered the rediscount rate[1] of the New York Federal Reserve Bank from 4 to 3,5 %. Adolph C.Miller, a member of the Federal Reserve Board, described this as “the greatest and boldest operation even undertaken by the Federal Reserve System, and...(it) resulted in one of the most costly errors committed by it or any other banking system in the last 75 years”[2].

Consequently the funds that the Federal Reserve made available served either to invest in common stock or to finance the purchase of common stock by others . This helped in fuelling the speculation and according to all evidence the situation got completely out of control.[3]

In addition **,** from 1925 , industry was over-producing and thus generating more

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[1]- The rediscount rate is the rate at which member commercial banks borrow from the reserve banks of their district so that they may accommodate more borrowers than their own resources permit . John kenneth, Galbraith , Op.cit., pp.9 and 27.
[2]- Testimony before senate committe ,Quoted by Lionel Robins,<u>the Great Depression</u>,New York, Macmillan,1943,p.53.
[3]-Ibid.,p.53.

profits that business leaders reinvested in factories and new machinery. Thus ,by investing their over-production profits in new production **,** companies hired more workers, which, in turn, fuelled even greater overproduction. As a result, the increased production gave the companies an aura of financial soundness, which encouraged Americans to buy more stock.

Besides, the stock market did not attract only financiers and businessmen but even average Americans. In order to make profits, many people pulled out their savings from banks and put them into stocks and utilities .Some went as far as mortgaging their homes to raise more money for investment. The following passage pictures this diversity :

> *The rich man's chauffeur drove with his ears laid back to catch the news of an impending move in Bethlehem Steel; he held 50 shares himself on a twenty- point margin. The window-cleaner at the banker's office paused to watch the ticker, for he was thinking of converting his laboriously accumulated savings into a few shares of Simmons.. Edwin Lefevre (an articulate reporter on the market at this time)told of a broker's valet who made nearly a quarter of a million on the market, a trained nurse who cleaned up thirty thousand following the tips given her by grateful patients; and of the Wyoming cattleman, thirty miles from the nearest railroad, who bought or sold a thousand shares a day.*[1]

Nevertheless, economic historians estimate that a relatively small number of Americans, about one and a half million out of a population of approximately 120million[2], had investments in the market at any one time. Yet, the constant influx of new investors coming in and old investors moving out ensured that new money was always floating around.

In addition, the employed devices in speculating[3] were not always honest. For example

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1- Frederick Lewis , Allen, Only Yesterday ,p.233.

2-John Kenneth, Galbrath,Op.cit.,p.68.

3- Speculation is the purchase of a security ,currency or commodity in the hope that its price will rise and that profitable resale will thereby be possible ,usually in the short run. S.E.,Steigeler and Glyn, Thomas, Op.cit., p 372.

it was usual that both officers of a given company, brokers and speculators worked in stock- market pools in which they drove up the price of the company's stock and then sold it to outside investors at artificially inflated prices , making profits at the expense of those officers' own stockholders and leaving the new buyers with over priced stock .

Meanwhile, those new investors bought millions of shares of stock "on margin". the purchase of common stocks with bonds or debentures allowed the investors to have all of the increase in value with minimal personal outlay .In effect, this practice functioned the same way as buying a car on credit . Investors had to pay only 10% and borrowed 90% of the share value from banks, hoping to pay back the loan and the brokers' rate with the profit they would make on the sale. If the stock prices increased thus the investor would realise a considerable benefit.

To provide money, the New York banks were borrowing huge amounts of money from the Federal Reserve to carry the speculative superstructure. Accordingly, the amount of money loaned to brokers to carry margin accounts for traders had risen from $2,818,561,000 to $3, 558, 355,000[1].

Moreover, since the federal government of that time did not impose any regulating rules on buying and selling shares of stock, corporations began printing up more and more common stock. As many investors in the stock market practiced "buying on margin", this investment strategy turned the stock market into a speculative game, in which most of the money invested in the market didn't actually exist for many transactions as well as profits were not real but only on paper.

In addition, most people did not even check the fundamentals of the companies they were putting their money in, thousands of fraudulent companies were formed for the purpose of taking money from naïve investors.

Another crucial point was that national banks were prohibited from lending more than 10 percent of their capital and surplus to one customer. The effect of this regulation on banks' lending capacity was amplified by strict federal and state limits on branch

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[1]- Frederick Lewis, Allen, Only Yesterday ,p. 205.

banking that restricted banks' ability to grow. These restrictions were not compatible with the financial needs of the new enterprises.

As a matter of fact, firms turned to financing their investments out of retained earnings and bond and stock issues. As both old and new corporations issued equities to finance new plant and equipment, commercial banks did purchase more bonds, but they could not legally trade or acquire equities. The solution that banks adopted was to set up wholly-owned securities affiliates, which permitted them to enter all aspects of investment banking and the brokerage business .

By doing so bankers abandoned their traditional role as the guardians of the nation’s wealth and enjoyed the 1920s bull market by creating securities affiliates to sell shares and bond to the public and by speculating on their own behalf. Thus, they became a source of encouragement to those who believed in the permanence of the boom.

Most important, they increased their role as brokers between the saving public and industry. Banks were familiar with their borrowers and conditioned to monitor their activities. However, many of the new investors they served lacked experience in buying stock and monitoring firms, thus creating a favourable condition for a bubble.

Then, banks allowed Wall Street investors to use the stocks themselves as collateral. This meant that stocks were pledged as securities for the repayment of the loans . Nevertheless this practice was full of risk for if the stocks dropped in value, investors could not repay the banks, and thus the banks would be left holding worthless collateral.

Thereby it was under these circumstances that analysts and politicians started to argue that the U.S. stock market had entered a "New Era" where stock values and prices would always go up.

When Ben Strong died in October 1928, George Harrison, his successor immediately lobbied for higher interest rates to cool the speculative fervour and suggested that the Federal Reserve banks ought not to lend their clients money for stock market operations. This policy in return led to an important increase of the credits' interest rate. The following table shows it:

Table 3

Call Loans Interest Rate at New York Stock Exchange

January 1925	3,32
January 1928	4,24
September 1928	7,26
March 1929	9,80
June 1929	7,83
July 1929	9,41
September 1929	8,62

Source:Lionel,Robins,op.cit.,p.255.

However, this attempt to curb speculation remained insignificant for the Wall Street stock exchange had already taken on a dangerous aura of invincibility, leading investors to ignore less optimistic indicators in the economy.

Accordingly , stock prices rose so rapidly that they ceased to have much relation to the actual earning power of the corporations .The standard Statistics index of common stock prices averaged 100 during the year 1926;by June ,1927, it had reached 144; by June ,1928,it had got to 148, by June ,1929,to 191 and in September ,1929 to the dizzy height of 216[1].

Thus, the Big Bull market and the speculative mania that characterised the stock exchange of the twenties were nothing but the result of economic, cultural, psychological and political factors that paved the way to such a boom .

Yet, few people imagined that the peak in stock prices had been actually reached, nevertheless, for economists, the great bull market of the late 1920s was a classic example of a speculative "bubble" scheme, because it expands until it bursts.

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[1]- Frederick Lewis, Allen, The Big Change ,p.142.

Indeed early in September1929 the stock market broke but investors as well as financiers thought that the market was just readjusting itself and that there was no need for alarming people. However the expected recovery did not come. In addition, , the Federal Reserve's index of industrial production dropped in July 1929. In August and September, other indices began to fall. This mixed news and rising interest rates led stockholders to revise their expectations and start to buy their actions. Thus, the accumulation of hundreds of thousands of shares of stock in the hands of traders whose margins were exhausted or about to be exhausted generated a wave of selling.

Accordingly, on "Black Thursday" October, 24th, 1929, 12,894,650 shares changed hands, and many of them at very low prices[1].

There were some attempts to stabilize the market , for example ,a combine of bankers led By J.P.Morgan and company(a leading bank in New York at that time) set up a pool of cash to prop up prices but this attempt to inspire confidence failed .

Thus "Black Tuesday" October ,29th ,1929 was the most devastating day in the History of the New York stock market , 16,410,030,shares were sold and for two weeks the market continued to drop until prices reached their lowest level on the thirteenth of November of the same year[2] . The following table shows the considerable decrease of stock prices throughout that period:

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[1]- John Kenneth, Galbraith , Op.cit., p. 87.
2- Ibid.p.99.

Table 4

The increase of the stocks' prices in New York Stock Exchange

	High price: Sep,3,1929	**Low price: Nov,13,1929**
American Can	$181^{7/8}$	86
American Telephone & Telegraph	304	$197^{1/4}$
Anaconda Copper	$131^{1/2}$	70
General Electric	$396^{1/4}$	$168^{1/8}$
General Motors	$72^{3/4}$	36
Montgomery Ward	$137^{7/8}$	$49^{1/4}$
New York Central	$256^{3/8}$	160
Radio	101	28
Union Carbide & Carbon	$137^{7/8}$	59
United States Steel	$261^{3/4}$	150
Westinghouse E& M	$289^{7/8}$	$102^{5/8}$
Woolworth	$100^{3/8}$	$52^{1/4}$
Electric Bond & Share	$186^{3/4}$	$50^{1/4}$

Source: Frederick Lewis , Allen, Only Yesterday , p.241.

The main and immediate consequence of the 1929 Stock Market Crash was that within few days the wealth of a large part of the country which had been concentrated in wild speculation and highly inflated stock prices, simply vanished . F.l.Allen summed up the situation when he wrote:

> *The disaster which had taken place may be summed up in a single statistic. In a few short weeks it had blown into thin air thirty billion dollars – a sum almost as great as the entire cost of the United States participation in the (first)World War , and nearly twice as great as the entire national debt.* [1]

It can be conclude ,then, that the twenties were a period of a revolution in manners and morals as well as an excessive economic boom. Nevertheless, many observers agreed that the inept financial system, the deficitary foreign trade, the uncompetitive industry and the depressed agriculture were all symptoms of the serious illness of the American economy.

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[1]- Quoted in : Kenneth.C, Davis ,Op.cit., pp. 270-271.

The Big Bull Market as an integral institution of capitalism and the American system, was one of the best leading indicators of the 1920s economy .Yet , the bases on which it worked were not sound enough to avoid the cataclysm of October, 29^{th},1929 .

Thus the Stock Market Crash was the alarm and the crucial question was whether the crisis of Wall Street could be limited there without spreading to the real economy i.e jobs ,income and production .Yet ,the close connection and interaction between the financial sector and real economy made the spreading of the crisis to the whole economy unavoidable .

CHAPTER TWO

THE GREAT DEPRESSION

While many people believe that the 1929 Crash and the Depression are one and the same event, economists argue that they were not. Nevertheless, they agree that there is no doubt that the crash was one of the things that intensified the course of the economic recession that had already began before October 1929.Yet the sudden collapse in the value of securities ,the collapse of the fortune of people who were playing the stock market and the immediate effect on investment and consumer spending generated by the stock crash had a negative influence on production, income and employment and made it difficult to maintain that the stock market was a superficial phenomenon ,a signal or triggering, rather than part of the deflationary mechanism [1].

In this respect ,the following chapter will try to set up the relationship between the 1929 Stock Market Crash and the Depression that marked the thirties .It will also try to highlight the factors that contributed to the extremely long duration and complexity of the Depression as well as its impact on the American society .

1-<u>Links between the 1929 Crash and the Great Depression:</u>

When people think about the Great Depression ,the 1929 stock market crash is the first thing that comes to mind .The stock market exchange of the twenties was perceived as the symbol of the US economic prosperity .Hence The crash not only destroyed considerable wealth but it also sparked doubts about the health of the economy and its future .This has led ,and on a large scale, to a loss of confidence .The unexpected and brutal fall in stock prices and commodities had psychologically hurt Americans whether

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[1]-Charles.P, Kindelberger, <u>The World in Depression,1929-1939</u>,London:Allen Lane, The Penguin Press,1973,p.127.

they were directly or indirectly involved in the stock market practices .The following citation clearly describes this shift :

> *Prosperity is more than an economic condition ;it is a state of mind .The Big Bull Market had been more than the climax of a business cycle ;it has been the climax of a cycle in American mass thinking and mass emotion ......With the Big Bull Market gone and prosperity going ,Americans were soon finding themselves living in an altered world which called for new adjustments ,new ideas, new habits of thought ,and a new order of* values.[1]

In the wake of the crash, caution replaced speculation and the question was whether the events of the financial sectors could be prevented from spreading to the real economy of jobs, income and production, or not . However, as big as it was, the stock market crash alone did not cause the Great Depression.

At that level, and with regard to the economic conditions before the crash, the argument that causes and effects are generated from the economy to the stock market, and not the reverse, was true . Thus, even if the stock market crash announced the beginning of the downturn, the deep economic problems of the 1920s had already converged a few months earlier to start the downward spiral that conducted the country to the Great Depression .

In fact the economic growth of the second mid 1929 was only apparent. From a purely statistic point of view, industries had already started to fall back .However this recession was largely masked by the capital movements and their concentration in the more speculative stock values that maintained the illusion of continuous prosperity in the American economy.

Indeed during the twenties, thanks to the technological advances in production processes (notably electrification and chemicals), the industry had become more mechanized which led to an over production of capital an goods .Yet, an economy can

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[1]- Frederick. Lewis, Allen , Only Yesterday , p.242.

not work properly if it has a mass production without a mass consumption ,each depends on the other[1]. However, after 1927, consumer spending declined and business inventories began to rise for the bulk of population could not create the necessary demand to keep up with the increasing supply .Then, housing construction slowed .In fact, the construction industry seriously dropped from $7295 million in 1928, to $ 6421 million in 1929[2].

In addition, by the end 1928 and beginning of 1929, steel and automobile production, two centrepieces of the American economy were also in decline. Therefore, manufacturers began to cut back production and lay off workers. This was not without a consequence on the huge numbers of workers that were employed in these industries as well as on the American economy as a whole.

The economic weakness was not limited to industry ,farmers also continued to suffer from the following the post-war collapse of agricultural prices .However, these ominous signs were masked by the bull market and went largely unheeded by the government and public .

Meanwhile, the public officials, such as President Herbert Hoover and members of the Federal Reserve System in the latter 1920s, concentrated on the stock market and wanted to put an end to what they perceived as a speculative excesses that were driving the stock market boom. To address the question it is necessary to explain that the Federal Reserve had always been concerned about excessive credit for speculation. Its founders were influenced by the real bills doctrine[3] and had hoped the new central bank would channel credit away from "speculative activities" and towards "productive" activities.

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[1]-H.C., Moulton, Income and economic progress, Brookings Institution, Washington**.** 1935,p.1630 .

[2]- F.C.,Mills, Economic tendencies in the United States, aspects of the pre-war and post-war changes, NBER, New York.1932.p246

[3]-The real bills doctrine asserted that banks should invest primarily in short-term commercial bills that represented actual production. The Federal Reserve Act attempted, in part, to implement this doctrine by limiting the types of assets that were eligible for discounting at the Federal Reserve banks. Robert Craig, West, Banking Reform and the Federal Reserve, 1863-1923. Ithaca: Cornell University Press, 1977.p53.

The crucial point then, was that the Federal Reserve believed that there was a speculative bubble that led to an overvalued stock market[1].In order to curb speculation and burst the bubble, in January 1928 the Federal Reserve reversed its policy and undertook a highly contracted monetary policy. Between December 1927 and July 1928 the Federal the Reserve reduced total reserves by $261 million. Through the end of June, total demand deposits of all banks fell by $471 million[2].Furthermore, it raised rediscount rates from 3.5 percent at the beginning of 1928 to 5 percent in July, the highest level since the recession of 1920–21[3].

An other attempt to curb the bull market was the “moral suasion” policy undertaken by the fed in the first half of 1929. The Federal Reserve Bank President Adolph Miller , The Federal Reserve Board in Washington, and also President Hoover considered credit rather in qualitative than in quantitative terms. Believing that the speculative excesses of the stock market were hurting economy, they wanted to deny bank credit to the stock market while yet keeping it abundant to “legitimate” commerce and industry. [4] In this respect, the Federal Reserve Board believed that "direct pressure", by denying access to the discount window to member banks making loans on securities, could be used to take credit away from speculation and curb stock market speculation.

In this respect, the Federal Reserve firmly discouraged lending for stock market transactions. The intentions of the Board of Governors of the Federal Reserve were made clear in a letter dated February 2, 1929 sent to Federal Reserve banks. In part the letter read:

> *The board has no disposition to assume authority to interfere with the loan practices of member banks so long as they do not involve the Federal reserve banks. It has, however, a grave responsibility whenever there is evidence that member banks are maintaining speculative security loans with the aid of Federal reserve credit. When such is the case the Federal reserve bank*

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[1]- For more details refer to chapter I,section3, p22.

[2]-MurrayN.Rothbard, America’s Great Depression, The Ludwigvon Mises Institute ,USA. fifth edition ,2000. p160.

[3]-Ibid.,p 161.

[4]-Ibid.,p163.

becomes either a contributing or a sustaining factor in the current volume of speculative security credit. This is not in harmony with the intent of the Federal Reserve Act, nor is it conducive to the wholesome operation of the banking and credit system of the country.[1] *Federal Reserve Board.*

Nevertheless the issue of the stock market created a split within the fed policy. The Federal Reserve Bank of New York, for instance, was against this policy maintaining that it was impossible to control credit selectively. It argued that speculation could only be reduced by further rising in the discount rate. Finally, "moral suasion" policy was abandoned by June 1929, and was replaced by a further raise in the discount rate and banks continued to make questionable loans .

Loans to brokers by New York member banks on their own account reached a peak at the end of December 1927, and then declined. Yet, these loans were not the only responsible for fuelling the boom. Indeed September 1927, $600 million in commercial paper was outstanding by September 1929, it had declined to $265 million.[2] In fact banks provided more loans and discounts to firms that had previously relied on the commercial paper market. These firms however moved into the call market from which banks had been discouraged by the Federal Reserve. The rapid growth occurred in loans from private investors, corporations and foreign banks in Europe and Japan, which contributed to the rising supply of brokers' loans from non-bank sources. Hence the rising tide of speculation attracted funds into the bull market, forcing a major reallocation of credit in the money and capital markets. Therefore there was a sharp decline in commercial paper. Thus it can be said that the stock market's demand for funds and new issues forced major changes in other financial markets and as a result the stock market boom continued to rage.

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[1]-Stephen G ,Cecchetti, Understanding the Great Depression: Lessons for Current Policy. In the Economics of the Great Depression, edited by Mark Wheeler. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 1998, p93-94.

[2]-Board of Governors of the Federal Reserves, Banking and Monetary Statistics 1914-1941, Washington, D.C.: United States. Government Printing Office, 1943 , pp. 465-66.

In addition, although most historians believe that the 1920s bull market was a bubble other observers attributed most of the market's rise to fundamentals. When the market reached its highest point in August 1929, some investors began to fear that there was excessive speculation, Charles Amos Dice (1929) of Ohio State University argued that the higher prices in the stock market were not the product of speculation but rather the product of economic fundamentals, meaning that it was the real factors of economy that led to the stock prices rise and not speculation.

After the crash, in December 1929, Irving Fisher of Yale sustained this point of view by arguing that the rise was not irrational but justified. In this respect he wrote: " My own impression has been and still is that the market went up principally because of sound, justified expectations of earnings, and only partly because of unreasoning and unintelligent mania for buying"[1] .

Both Dice and Fisher believed that earnings and dividends would continue to grow rapidly because of great economic improvements they saw in the economy. Thus The argument for the role of fundamentals in the stock market boom holds that the rise in stock prices would have been justified by continued economic growth if monetary policy of the Federal Reserve and the Congress had not plunged the economy into a depression.

Hence “The causes of the panic, and of the depression that it heralded were complex and deeply rooted. " Most of them, however, "were associated with the dominant one, namely, inflation; that is, an unwarranted increase in currency and bank credit.".[2] In deed another feature of the economy of the time was infalion[3]. Yet, the inflation of the 1920s was actually over by the end of 1928.The total money supply on December 31, 1928 was $73 billion. On June 29, 1929, it was $73.26 billion.[4]

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[1]-Irving Fisher, The stock Market Crash and After, New York:Macmillan,1930.P53

[2]-RobertT. Patterson,The Great Boom and Panic: 1921-1929, Chicago: Henry Regnery Company, 1965. p p.vii, 215.

[3]-Inflation is a condition where the volume of purchasing is persistently running ahead of the output of goods and services available to consumers and producers, with the result that there is persistent tendency for prices and wages to rise that is for the value of money to fall. J.L.,Hanson, A Dictionary of Economics and Commerce, London, McDonalds and Evans LTD,1974,p.270.

[4]- MurrayN.Rothbard, Op.cit.,p.162.

From that time the money supply remained relatively stable. According to economists, at this point, a depression to adjust the economy was inevitable. However this adjustment was not imminent because economy does not react instantaneously to change. Time was needed to make both economic and financial factors interact to create the turning point. The latter occurred about July, thus, the National Bureau of Economic Research business cycle chronology dates the start of the Great Depression in August 1929.Yet the wave of optimism generated by the boom and credit expansion, and the increasing stock values took about four months to make people realize-when the stock crashed-that a downturn in business activity arrived.

As a conclusion it may be said that the stock market crash and the falling stock prices were the result of the self economy correction process to which even the technicians of economics could do no thing.

Nevertheless the whole economy was now going to undergo the consequences that the stock crash generated. One of the main reactions of people and businessmen was of a psychological nature. Since most Americans viewed the stock market as the chief indicator of the health of the American economy, the Great Crash shattered public confidence. In fact this generated a climate of fear and uncertainty about the future, a feeling that most Americans had forgotten during the prosperous years of the twenties. More important the caution that appeared in the wake of the crash had a disastrous effect on economy.

At this level, several explanations were given for the linkage between the Crash and the Great Depression. Some economists argue that the crash and an increase in liabilities led to deterioration in households' balance sheets (written statement that shows credit and debit with details) and worsened the burden of debts. The reduced liquidity (the amount of money circulating in the economy) which was due to the response of the Fed to the nineteen twenties expansion of credits and brokers' loans as well as the subsequent fall in prices, led consumers to put off to a later time consumption of durable goods and housing and thus contributed to a fall in consumption.

Indeed, one of the factors that transformed the crash to a severe economic downturn was over-indebtedness.

Irving Fisher believed that the debt problem was significant[1]. Indeed it was usual before the crash to contract credit either for speculation or to buy durable goods. Looking back to the practices of the stock market it was obvious that investors borrowed more money than they invested. As prices and wages fell consumers found it difficult to repay contract debts, particularly mortgage loans.[2] Hence, in order to pay their debts consumers were forced to liquidate assets, reduce consumption, or both.

Yet the development of an excess supply of housing depressed housing prices making liquidation of real estate extremely difficult. The pressing need for liquidity, then, was met by much greater than expected reduction in consumption. Yet the first effect of this liquidation was to increase the value of each dollar owed, with regard to the decline in the value of asset holdings. Thus the liquidation of debt could not keep up with the fall of prices which it caused. The effort of individuals to lessen their burden of debt effectively increased it. Paradoxically, the more the debtors paid, the more they owed. This self-aggravating process turned the 1930 recession into Great Depression.

In addition many of the bank failures that occurred in agricultural states, where declining incomes and property values resulted in a high level of foreclosures, were due to the situation of farmers who could not repay their debts. Thus, increasing debt burdens may have played a role in both bank failures and the shortfall of consumption relative to income.

Others scholars suggest that if the stock market was thought to be a predictor of future economic activity, then the crash can rightly be considered as a source of increased consumer uncertainty that depressed spending on consumer durables and accelerated the decline that had begun in August 1929.

It is generally agreed that the rising stock market prices does not affect directly the small households .However, according to economists , it is possible that changes in stock prices affect spending even by households that do not own stock because they

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[1]-William Allen has published a letter from Fisher to Franklin Roosevelt written one week before the latter's inauguration. In it Fisher warned the new President that the increasing real burden of debt "is the main secret of the Depression" and that failure to address it would place the nation "in danger of going down into an almost bottomless abyss" . William.R, Allen, Irving Fisher, F.D.R., and the Great Depression. History of Political Economy, Winter 1977, 560-87.pp.566-67.

[2]-Nonfarm mortgages accounted for 39 percent of the private long-term debt of nonfinancial corporations in 1929. Clark, Evans, The Internal Debts of the United States :New York, 1933. p. 10.

affect consumer confidence or the uncertainty that consumers perceive about future economic conditions.

In this respect ,the rising stock market of the second mid 1920s has sustained consumer confidence, thereby raising spending even among households with little or no direct involvement in the stock market . Indeed, by the end of the twenties, consumer confidence reached its highest level since 1921 and this high level of confidence has probably contributed to the growth of consumer spending.

With the stock market crash and the subsequent contraction of money - taking into account the fact that consumers react more rapidly when wealth contracts than when it expands- the severity of the Depression then can be attributed to an autonomous and entirely inexplicable fall in consumption[1]. For this decline in consumption led to a decline in spending which in turn, as manufacturers and merchandisers noticed an unintended rise in inventories, led to a decline in production and accelerated the economic downturn.

The Great Depression was not the first downturn in the US economy, However, according to economists, what made the difference between the panic of 1929 and the previous ones was the fact that during the precedent recessions such as those of the 1870s and 1890s, no prolonged or enduring period of collapse, where industrial activity simply failed to revive, had followed any financial crisis. In deed during the precedent recessions Gross Domestic Product—the sum of all goods and services produced, weighted by market prices and adjusted for inflation—had returned to its original level within five years. In the Great Depression, GDP was still below its 1929 level a decade later. Thus, compared to the aftermath of the previous panics, what happened after 1929 Stock Market Crash was really new and of a magnitude not previously witnessed.

In order to restore confidence the government of the era continued to voice optimism and hope. In this respect President Hoover called a series of business meetings, where leading industrialists, the leading railway executives, the heads of large utilities, the heads of the important construction companies and the heads of the farm

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[1]-Peter ,Temin, Did Monetary Forces Cause the Great Depression? New York: Norton, 1976.pp16, 83.

organizations met in turn with the president during the latter part of November that followed the Crash .

The aim of these meetings was to show that when put into historical context, there was no reason to view the downturn of 1929–30 as historically unprecedented and that its magnitude was comparable to that of many recessions that had previously occurred. President Hoover as well as the industrial leaders believed that depressions were part of the business cycle and that the fundamentals upon which the economy was built were sound ,that the market would readjust itself and that prosperity would soon come back .

In the first term of 1930, the stock market showed a substantial recovery and the industrial indices[1]showed a measurable signs of improvement. "The spring of 1930 marks the end of a period of a grave concern .... American business is steadily coming back to a normal level of prosperity." said Julius H.Barnes ,the head of Mr Hoover's new National Business Survey Conference ,Secretary Mellon predicted "a revival of activity in the spring" [2] .Yet the supposed self-correcting process of the market did not occur and prosperity did not come back .Instead things turned to the worst .

In April of the same year the economy began to fail again, and in June there was another large drop both in commodity prices, production indices as well as in the stock market values. Conditions continued to worsen for the next three years. By March 1, 1933 , the value of the stocks in New York Exchange was less than 20% of the value at the market's peak in 1929.[3]

As a result, the Great Depression was on its way and its effects became self-generating .In this sense F.L.Allen cites :

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[1]- Indices is the plural of of global index which is compiled to measure changes in the volume of production ,based in most cases on physical output bu in few cases on value where measurement of physical output are not possible. Separate indices are compiled for each main industry. Industries are weighted according to what is expected as their importance .T.M.,Jackson ,Basic Concepts in Monetary Economics, Great Britain, Checkmate Publication,1986,p.89.

[2]- Frederick Lewis ,Allen, Only Yesterday , p.243.

[3]- George.B., Tindall and David .E., Shi , Op.cit., p.698.

a vicious circle of ebbing sales, followed by declining corporate income, followed by attempts to restore that income by cutting salaries and wages and laying off men, which caused increased unemployment and further reduced sales, which led to increased business losses, which led to further wage cutting and further firing men, and so on toward disaster [1]

The immediate result of the Crash was that the credit of a large portion of the nation's consumers had been exhausted, and Americans found themselves spending much of their current income to pay for past, rather than new, purchases. This decimated the demand for goods and fuelled the company losses.

Obviously, by contracting the amount of money, the Crash reduced the ability of the economy to fight off the underlying sicknesses of the US economy that have been pointed in the first chapter .

2-The Banking Crisis of 1929-1933:

With the Crash of 1929, the whole credit structure of the American economy had been shaken more severely that anybody then dared guess. [2]

The question of whether the bank failures caused the Great Depression, or the Great Depression caused bank failures is still debated, nevertheless, the connection between the banking crisis that followed the stock market crash and the economic recession that characterized the Depression era remains very important.

In order to understand the relation between real economy, money and banks a brief survey on both money and banks imposes itself .It is generally agreed that a modern economy could not function without money. Print too much money, and its value declines that is, prices rise (inflation). Shrink the money stock, on the other hand,

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[1]- Frederick Lewis ,Allen, The Big Change , p.165.
[2]- Frederick Lewis ,Allen, Only Yesterday , p.145.

and the value of money rises that is, prices fall (deflation) [1].In this respect, any sudden or dramatic change in the amount of money leads systematically to an economic disaster.

It should also be stated that for an economy to work properly the "money supply", which refers to the total amount of money circulating in the economy, should grow at the same rate that the economy grows. Any faster is inflationary and any slower is deflationary.

Banks are considered as the pumping stations or hearts of the capitalist system, it is through these institutions that money circulates and is regulated. Unlike an investment bank, the fundamental functions of a commercial bank during the past two centuries have been making loans, receiving deposits, and lending credit. Nevertheless, during the 1920s, several large banks had a part in the stock market speculation through their investment affiliates on one hand and the investment of so much of the deposits in loans to businesses, people and brokers on the other hand.

According to economists, a banking panic arises when many depositors lose confidence in the solvency of banks and simultaneously demand their deposits to be paid to them in cash. Banks, which typically hold only a fraction of deposits as cash reserves, must liquidate loans in order to raise the required cash. The huge demand for cash and the hasty process of loans' liquidation leads inevitably to the failures of banks.

In fact what happened in the end of 1929 was that once the stock market crashed the banks' stocks value has markedly fallen in value which constituted the first heavy losses of banks .Then borrowers could no more pay their debts to banks which led to further losses.

Moreover, fearing that banks would fail, millions of Americans began to withdraw their money putting thousands of banks in peril for the simple reason that the

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[1]-Deflation is a reduction in the general price level that is due to a decrease in economic activity of a nation. The price level as well as national income, output and unemployment with all fall. Governments introduce deflationary policies for several reasons mainly to decrease the rate of inflation, to cut the volume of import or to prevent the economy from becoming overheated. Among the deflationary policies available to the government are increases in the interest rate, increases at level of taxation . S.E.,Steigeler and Glyn, Thomas,Op.cit.,p.94.

banks often did not have the money to give them. This created a loss of confidence in the banks' solvency and caused other depositors to panic and demand their cash, ruining more and more banks. Indeed, the more money Americans withdrew, the more banks failed, and the more banks failed the more money Americans withdrew, hence, this vicious circle caused the American banking crisis to deepen.

In addition to the panics generated by the Stock Market Crash, the structural weaknesses that characterized the banking system[1] also played a prominent role in generating and deepening the bank panics. In order to reorganize and reinforce the American banking system the Federal Reserve System had been established to prevent and avoid a banking crisis. Yet, the worst banking panics of the US history occurred thereafter.

Some observers argue that there were three important structural flaws in the original Federal Reserve Act of 1913 that can clearly explain why the Fed failed to prevent the panics of the Great Depression.

First, membership was not compulsory for all banks; it was obligatory (under a mandate) for national banks and optional for state banks and trust companies thereby restricting access to Federal reserve loans as well as to the discount window. Then, the conditions and qualifications for discount by member banks was too narrowly defined and the third point was that the decentralization of power among the twelve Federal Reserve Banks and the Federal Reserve Board made consistent and effective policy action difficult and blocked up policymakers' efforts to respond quickly at the onset of banking panics.

Furthermore, the preoccupations of the banks' top management with the value of their stocks led them to neglect many banking fundamentals in a manner that adversely affected their own earnings.

As a matter of fact, besides ruining many thousands of individual investors, the rapid decline in the value of assets greatly affected banks and other financial institutions, which left bankers and financiers in a very vulnerable position for their

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[1]-For more details refer to chapter 1, section 2, p21.

practices were perceived as a source of the Great Depression.

Just after the stock market crash, the leading Federal Reserve officials didn't react, they rather maintained the neutral policy of laissez-faire ; which means to let the money market find its own level without providing artificial stimuli that could only prolong the crisis.[1] Then, in early 1930 ,the government instituted a massive easy money programme .The rediscount rates of the New York Federal Reserve, for instance, fell from 4.5 percent in February to 2 percent by the end of the year.[2]

Accordingly, George Harrison, the governor of New York Federal Reserve Bank, by providing tremendous amounts of credit to the member banks, succeeded in preventing immediate bank failures and bankruptcies, and a total collapse. Consequently, during the year 1930, total member bank reserves increased by $116 millions. Controlled reserves rose by $209 millions; and the gold stock increased by$309 millions. Despite this increase in reserves, the total money supply remained almost constant during the year, falling very slightly from $73.52 billions at the end of 1929 to $73.27 billions at the end of 1930.[3]

As a consequence the market recovered a good bit of ground but began to fall again before the end of the year. Yet, during the following three years this liberal credit policy has been reversed affecting the money supply and worsening the banking crisis which lasted more than three years.

The bank failures that rocked the American financial system played a major role in the economic downswing of 1929-33. These panics went through different steps and took different patterns.

In early 1930, there were sixteen bank failures per month in America, by the end of the year the first of an important series of bank failures occurred. At first the patterns of failure was largely limited to the agricultural areas of the south and west. This was mainly due to the fact that American farmers borrowed heavily to purchase and improve land in order to increase production during WWI. However, the substantial increases in

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1-Benjamin M. Anderson, Economics and the Public Welfare, New York: D. Van Nostrand, 1949, pp. 222–23.
2-MurrayN.,Rothbard, Op.cit.,p .160.
3-Ibid., p.160

farm debt in the 1920s and the dramatic decline of the farm commodity prices that followed the war made it difficult for farmers to pay their debts.
In addition the U.S policies that encouraged small, undiversified banks, created a favourable environment to such panics.

Among the banks that closed in the beginning of the crisis was the Bank of the United States, with 400,000 depositors it was the fourth largest bank in New York. [1] Although it was a private bank, economists argue that the biggest bank failure in American history, the Bank of the United States bankruptcy fed a psychology of fear that gripped depositors across the country.

Then, as the industrial depression deepened, the failures spread to all parts of the country. In May, 1931 the failure of the Austria's largest bank, the Kredit-Anstalt, touched off financial panics in Europe. Meanwhile the United States' economy appeared to be trying to begin recovery, yet having had enough of the distress associated with the international transmission of economic depression, the second wave of bank failures hit the financial system in June and did not stop until December.

Thus, the outflow of currency from the banks tended to reduce banks reserves and contributed to the contraction of the supply of money and credit. The cash and reserve of these banks fell from $ 920 millions on December 10, 1930,to an average of $843 millions in April 1931.Demand and time deposits declined from $7.3 billions to $7 billions.[2]

The economic difficulties were far from over. In April 1932, under the pressure of Congress the Fed decided to ease monetary policy, in particular, to conduct large-scale open-market purchases of securities. Thus, between April and June 1932, the Fed authorized considerable purchases. This infusion of liquidity appreciably slowed the decline in the stock of money and significantly stimulated the stock market. Most interesting, "the tapering off of the decline in the stock of money and the beginning of the purchase program were followed shortly by an equally notable change in the general economic indicator. . . . Wholesale prices started rising in July, production in August.

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[1]-Garet, Garrett, <u>A Bubble That Broke the World</u>, Boston, Little, Brown, and Company,1932,USA. p.50.

[2]- <u>Banking and Monetary Statistics</u> .Washington, D.C.: U.S. Government Printing,1943, p. 207-208.

Personal income continued to fall but at a much reduced rate. Factory employment, railroad ton-miles, and numerous other indicators of physical activity tell a similar story. All in all, as in early 1931, the data again have many of the earmarks of a cyclical revival. . . "[1]. Yet, the majority of Fed officials did not consider the policy to be appropriate. Hence, when the Congress adjourned on July 16, 1932, the System essentially ended the programme.

Then, in December 1932 the third, and largest, wave of banking panics hit the financial markets. The following table provides estimates of the bank failures that occurred in 1930-32 .

Table 5

Number of Bank Failures: Great Depression

Panic dates	Number of Failures
November –December 1930	806
April- August 1931	573
September-October 1931	827
June-July 1932	283

Source: Wicker, Elmus. Banking Panics of the Gilded Age. New York : Cambridge University Press,2000.Bannking and Monetary Statistics ,Washington,1943. p. 143.

After that, the banking system reached the point of nearly complete collapse; more than 5,000 banks failed by March 1933[2] ,and as there was no deposit insurance to guarantee the saving of people ,millions of depositors found themselves without money ,thus the collapse of the economy arrived with the business cycle hitting bottom in 1933.

[1]-Friedman, Milton, and Anna Jacobson Schwartz. A Monetary History of the United States,1867-1960. Princeton, NJ: Princeton University Press , 1963. p. 324.

[2]- Yves Le Diascorn, Didier Blondeel, Le Nouveau Désordre Economique Mondial :Le capitalisme et ses crises, édition marketing,1995.p. 79.

These banks failures and the collapse of the financial system played a major role in propagating the crisis from Wall Street to the whole nation by transmitting the impact of the crash to all sectors of the economy for each bank suspension and the subsequent decline in the money stock was associated with a severe economic decline.[1]

To understand the process of this propagation it is important to explain the relationship between banks and the Federal Reserve .Because banks hold only a fraction of the value of their customers' deposits in the form of reserves, the sudden and unexpected attempt to convert deposits into cash that occurred during these years left banks short of reserves. Ordinarily, banks can borrow extra reserves from either other banks or the Federal Reserve. However, the increasing pressure exercised on the financial institutions and the unexpected demands for cash made the operation expensive and even impossible to realize.

Another fact that contributed to the severity and complexity of the crisis was that during these years, many banks could not or would not borrow from the Federal Reserve which was considered as the "lender of last resort" for they either had not acceptable collateral or were not members of the Federal Reserve System.

As the small banks, which accounted for 76% of all failures during this period ,[2] were not members of the Federal Reserve System, the latter saw no particular need to try to help these distressed institutions . At the same time, the large banks which, before the founding of the Fed would have intervened, subscribed to the idea that protecting the smaller banks was no longer their responsibility. Furthermore, since the large banks felt confident that the Fed would protect them if necessary (thanks to their membership), the liquidation of the small banks reduced competition which was a positive good, from their point of view. This leads to the conclusion that the membership question also contributed to the collapse of the financial system.

1- Friedman, Milton, and Anna Jacobson, Schwartz. Op.cit.,p. 678.
2-Lester V. Chandler, Reviewed work: The Banking Crisis of 1933. by Susan Estabrook Kennedy Source: Reviews in American History, Vol. 2, No. 4 (Dec., 1974), pp. 558-563.p559.

In addition, the belief that deflation could be generated with little effect on real economic activity led the fed to further increase in the discount rate, a policy that the Fed undertook to counter the post war inflation. However, the states of the economic world in 1929 was different from the one in the recession of 1920 –21.[1]

Indeed ,in 1929, the European economies had recovered and the interwar gold standard was a vehicle for the international transmission of deflation, therefore ,the economic implications of this change made that the deflationary policy of the Fed in 1929 did not operate as it did in 1920–21,on the contrary ,it made the money contraction much more severe and widespread than would have normally occurred during an economic downturn.

Moreover ,according to economists, the highly conservative monetary policy followed by the Federal Reserve completely failed to counteract the tidal wave of bank failures in the early 1930's. As mentioned above, the Federal Reserve was created in 1913 to improve the management of banking panics. Nevertheless, the Fed did not serve that function. The problem within the Fed was largely doctrinal: the majority of Fed officials supported Treasury Secretary Andrew Mellon's infamous “liquidation thesis”[2] which argued that liquidating weak banks was a harsh but necessary step to the recovery of the banking system.

Therefore, the Federal Reserve was not vigorous in countering the financial crisis in its initial stages. On the contrary it viewed the early years of the Depression as an

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1- In the immediate postwar years the worst problem was runaway inflation. Prices jumped by a third in 1919, accompanied by feverish economic activity. The postwar boom was less an indicator of solid economy than a reflection of consumers' desire to buy before prices went higher. In an attempt to decrease the postwar federal debt($20 billion in 1920),the Wilson administration sharply reduced federal expenditures to stop the inflationary spiral. The Federal Reserve System tightened credit because its expensive money policy had encouraged people to borrow and spend and thus had pushed prices even higher. The new policy resulted in a recession.The 1920-21 recession was the sharpest short-term downturn The United States had ever faced. James A., Henretta et al , Op.cit., p.740.

2- Secretary Andrew Mellon advised President Hoover that the only way to restore the economy to a sustainable footing was to 'liquidate labor, liquidate stocks, liquidate the farmers, liquidate real estate . . . purge the rottenness out of the system . . .'. 'People will work harder', Mellon insisted, and 'live a more moral life'. Herbert Hoover, The Memoirs of Herbert Hoover: The Great Depression, 1929-1941, 3 vols. New York: Macmillan, 1951-52, Vol .III,p. 30.

opportunity to successfully liquidate the economy, especially after the perceived speculative excesses of the 1920s.

Thus the tight monetary policy and the ongoing collapse of the banking system caused a drastic reduction of the money supply. Accordingly, by March 1933, when the economy was at its lowest point ,the money supply had fallen by about a third from its August 1929 level .[1]

Hence, the collapse of the money supply and the financial system led economists to pin the blame on the Federal Reserve and the failure of its monetary policy to offset the contractions in the money supply. Their arguments are as follows: first, the Federal Reserve did not attempt to contain the panics by aggressively lending to banks. Then, it did not use traditional methods like suspending deposit convertibility or suspension of the gold standard, both of which had been successfully employed in the past and finally, it did not consider the fact that it had an abundant supply of free gold, and therefore that monetary expansion was possible. These arguments can be summarized by the following quotation:

> *At all times throughout the 1929–33 contraction, alternative policies were available to the System by which it could have kept the stock of money from falling, and indeed could have increased it at almost any desired rate. Those policies did not involve radical innovations. They involved measures of a kind the System had taken in earlier years, of a kind explicitly contemplated by the founders of the System to meet precisely the kind of banking crisis that developed in late 1930 and persisted thereafter. They involved measures that were actually proposed and very likely would have been adopted under a slightly different bureaucratic structure or distribution of power, or even if the men in power had had somewhat different personalities. Until late 1931 – and we believe not even then – the alternative policies involved no conflict with the maintenance of the gold standard. Until September 1931, the problem that*

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[1]- James A., Henretta et al , Op.cit., p.772.

recurrently troubled the System was how to keep the gold inflows under control, not the reverse.[1]

However, the gold standard, to which the United States continued to adhere until March 1933, played an important role in the monetary policy of the Federal Reserve in so far as gold outflows that occurred, because of the retirements of foreign investors , required the Federal Reserve to contract the supply of money partly to preserve the gold standard. [2]

Under the gold-standard, the value of a currency is set in terms of the gold reserve of the country. Accordingly, each country took monetary actions to defend the fixed price. In this respect, countries that were gaining gold allowed their money supply to increase and raise the domestic price level to restore equilibrium and maintain the fixed exchange rate of their currency. On the other hand, countries that were losing gold were obliged to permit their money supply to decrease and generate a decline in their domestic price level to restore equilibrium and maintain the fixed exchange rate of their currency.

Hence, the gold-standard limited the ability of governments and central banks to respond to the crisis; thus it led to the adoption of policies that made economic conditions worse instead of better. In response to balance-of-payments deficits and gold losses, the only alternative governments and central banks was to restrict credit with the aim of reducing domestic prices and costs until international balance was restored.[3]

Thus the supporters of the fed policies argued that if the Federal Reserve had expanded greatly in response to the banking panics, foreign countries could have lost

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1-Friedman, Milton, and Anna Jacobson, Schwartz. Op.cit., p.602.

2- The Federal Reserve System reacted vigorously and promptly to the external drain, as it had not to the previous internal drain. On October 9, the Reserve Bank of New York raised its rediscount rate to $2^{1/5}$ per cent and on October 16, to $3^{1/2}$ per cent-the sharpest rise within so brief a period in the whole history of the System, before or since . . . The maintenance of the gold standard was accepted as an objective in support of which men of a broad range of views were ready to rally. Ibid,, p.317.

3-The loss of gold or the higher bank rate, then, can restore international equilibrium only by reducing internal prices. Of these, the most important is the price of labour. Wages and other incomes from labour may be reduced. This will have a double effect. On the one hand, wage-earners and others will have less to spend on everything, including imports. On the other hand costs will be reduced in all industries, including export industries. Imports will be checked and exports stimulated until the two flows once more balance. F. C. Benham, The Balance of Trade, in William Beveridge ed., Tariffs: The Case Examined London: Longman, 1932, Ch. 18, p. 250-1.

confidence in the credibility of United States' commitment to the gold standard. This could have led to large gold outflows and the United States could have been forced to devalue the dollar. They added that by doing so, the Federal Reserve had prevented a speculative attack on the dollar and avoided to the United States to abandon the gold standard along with Great Britain in 1931.

In addition, the monetary policy taken in the United States cannot be properly understood in isolation with regard to the rest of the world. The gold standard, when re-established after WWI, tied countries together and required fiscal and monetary authorities around the world to submit their economies to internal adjustment and economic instability whenever international shocks occurred. This made that monetary and fiscal authorities had little choice in responding to the financial crises of the era.

Thus, the commitment to the gold standard, did not offer another alternative to the fed but to let the banks fail for monetary expansion and the injection of liquidity would lower interest rates, lead to a gold outflow, and potentially be contrary to the rules of the gold standard.

Taking into account the adherence to the gold standard, the Federal Reserve claimed that, in order to maintain the international gold standard, it has adopted the adequate policy when it did not act during the banking crises that occurred during 1929-1933, and that the contraction of money supply generated by the bank failures was beyond its influence.

Then, the crucial point that results from the banking crisis is that when a bank fails a large amount of money disappears from the economy, which has a depressing effect on prices and a stagnating effect on business activity and investments. In this respect, the immediate consequence of the monetary contraction was deflation, ie low wages and low prices, In fact during the 1920s, both the money supply and output grew nearly at the same rate. But, in the early 1930s, both plummeted. Because of the actual price declines and the rapid decline in the money supply, consumers and business people came to expect greater deflation. As a result, people did not want to borrow because they feared that future wages and profits would not be sufficient to cover the loan payments. This hesitancy, in turn, led to severe reductions in both consumer spending and business investment spending. Thus everyone linked to the bank or its customers was, in one way or another, economically paralyzed.

3-<u>The American Economy and Society during the Depression :</u>

America had suffered depressions before, but none of them was as severe as the Depression of 1930s. The latter was different because of its length, complexity and durability. Indeed it was at the same time a financial, agricultural, industrial and commercial crisis.

All the parts of a market economy are connected to one another. Hence, when an event occurs in one part of the economy, other sectors will feel effects eventually. This is what happened after the stock crash of 1929.While the financial system was collapsing the whole economy underwent the same effects.

As it has been pointed earlier, over -production was already a character of the US economy by the end of the twenties ,yet when the stock market crashed ,businessmen as well as farmers increased their production in order to rise their revenue ,this led to further over production that had a devastating effect on prices. In deed ,the fall of prices was very considerable ,from 1929 to 1933,they dropped 30%, even the agricultural prices which showed resistance in the beginning dropped 50%.[1]The following table illustrates these changes :

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[1]-Jacque, Abadie and Jacque, Wagner,<u>29/73Le Choc Des Crises,Le poid des transformations</u>,Paris,Edition Marketing,1990, p.50

Table 6

The drop in prices

	Non-agricultural prices	**Agricultural prices**	**All the prices**
1929	93.3	104.9	95.3
1930	85.9	88.3	86.4
1931	74.6	64.8	73.0
1932	68.3	48.2	64.8

*Source:*Yves Le Diascorn,Didier Blondeel,Le Nouveau Desordre Economique Mondial :Le capitalisme et ses crises,edition marketing,1995.p.79.

Yet, the drop in agricultural prices took several steps to reach bottom .Indeed just after the crash, the Federal Farmer Board[1] (FFB) went into action. Its first big operation was in wheat .When first established, the FFB advised farmers not to send wheat forward to market too rapidly, but rather to hold wheat in order to wait for higher prices.

Then, among the farmer corporations the FFB selected the Farmers' National Grain Corporation to centralize all farmers' grain cooperatives. Their aim was to eliminate competition among them, and thus stabilize and raise the market price. To encourage farmers, the FFB and Farmers' National loaned money to farm cooperatives in the form of subsidy to hold wheat off the market, but, prices continued to fall.

Then, in an attempt absorb wheat surpluses the Farmers' National itself began to buy wheat at the loan prices, Thus with the help of the FFB wheat prices increased for a time. Therefore seeing this apparent success, wheat farmers naturally increased their acreage, thus aggravating the surplus problem by the spring of 1930. Furthermore, as America held wheat off the market, it lost its former share of the world's wheat trade.

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[1]- In June 1929, the Agricultural Marketing Act was passed, establishing the Federal Farm Board (FFB). The new scheme was, in essence, the old "Jardine Plan." The Federal Farm Board was furnished with $500 million by the Treasury and was authorized to make all-purpose loans, up to a 20-year period, to farm cooperatives at low interest rates. The Board could also establish stabilization corporations to control farm surpluses and bolster farm prices.MurrayN.Rothbard,Op.cit.,p.227.

Hence, the result of the big production of 1930 and the loss of international market was the accumulation of wheat surpluses in the hands of the FFB which threatened the market and caused prices to fall again. In these conditions the FFB argued that farmers would have to reduce their wheat production, if they wanted to raise prices effectively. Yet not all farmers agreed with this idea, for the reduction of acreage would inevitably lead to the reduction of farmers' revenue.

At the same time, foreign countries such as Argentina and Russia increased their production, and this increase, together with the general world depression, continued to drive down wheat prices. On June 30, 1930, the Grain Stabilization Corporation (GSC) [1] had accumulated over 65 million bushels of wheat held off the market.[2] On November 15, the GSC was authorized to purchase as much wheat as necessary to stop any further decline in wheat prices. Then, by the mid 1931, the GSC bought a huge quantity of wheat but again this did not stop the decline .When the FFB decided to dump wheat stocks abroad, the result was a drastic fall in market prices.

In addition to wheat, the Board also managed to stabilize other agricultural prices, namely cotton .At the beginning the FFB made substantial loans to cotton cooperatives to make decline in cotton prices less harsh for farmers .But cotton prices continued to fall. In June 1930, the FFB established the Cotton Stabilization Corporation (CSC) .The latter took an important quantity of cotton which it kept for an entire year out of the market .This policy aimed to stimulate the market by creating the necessary demand .

Yet, under severe competition from external sources, this had no effect. Again, the cartel was confronted with growing surpluses, and falling prices. Finally, the FFB tried to apply the same policy as with wheat farmers by urging the cotton farmers, too, to reduce acreage.[3]

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[1] -Under farm bloc pressure, Hoover then established the Grain Stabilization Corporation to replace the Farmers' National Grain and to redouble stabilization efforts. Murray N. Rothbard, Op.cit., p .230.

[2] -Ibid.,p.231.

[3] - Chairman Stone, of the FFB, urged the governors of the cotton states to "immediately mobilize every interested and available agency . . . to induce immediate plowing under of every third row of cotton now growing." Ibid.,p.232.

Yet cotton farmers did not share FFB's proposal.[1]Indded in 1931cotton crop was considerably larger than the year before.

Despite the attempts of the FFB to stabilize cotton prices, by July1932, cotton had lost over half of its value. Consequently by the end of 1932, combined cotton and wheat losses by the FFB totalled over $300 million, in addition to 85 million bushels of Wheat and 850,000 bales of cotton, worth over $78 million, donated to the Red Cross.[2]

These losses, unfortunately, did not brought up the farm prices, on the contrary, FFB 'loans encouraged greater production, which in turn led to farm surpluses, which overhung the market, and drove prices down. Indeed, by 1932, agricultural prices reached their lowest level since the founding of the American colonies.

With the failure of the FFB some radical farmers[3] ,under the leadership of Milo Reno, head of the Iowa Farmers Union and the Farm Holiday Association, decided to organize a "farmers' strike" to protest against the low prices. They proclaimed that falling farm prices were to be combated by withholding farm produce. Their slogan was: "Stay at Home—Buy Nothing, Sell Nothing," Hence, Even as thousands in the cities stood in bread lines and waited in soup kitchens for food, some farmers burned their crops and poured milk on highways as a form of protest and in a desperate attempt to drive prices high enough to cover their costs.[4]

In addition to the usual challenges of agriculture, a great drought took place during the thirties. While it was not a direct cause of the Great Depression, the drought

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[1] -This action stirred up a host of indignant opposition, the *NewYork Times* calling it "one of the maddest things that ever came from an official body." Harris Gaylord Warren, Herbert Hoover and the Great Depression ,New York:Oxford University Press, 1959, p. 175.

[2]-Murray N. Rothbard, Op.cit., p.231-32.

[3]-At the end of 1931, Secretary of Agriculture Hyde was advocating the replacement of our traditional "planless" agriculture by a program of government purchase and reforestation of submarginal lands. "Hyde, however, had rejected as incompatible with American liberty the proposal of Senator Arthur H.Vandenberg (R., Michigan) to compel farmers to curtail their production." Gilbert N., Fite, Farmer Opinion and the Agricultural Adjustment Act, 1933,*Mississippi Valley Historical Review* ,March, 1962, p. 663.

[4]-There were also "milk strikes" in some areas, with milk trucks seized on the roads, and their contents dumped upon the ground. Wisconsin and California, in 1932, pioneered in setting up state milk controls, amounting to compulsory milk cartellization on a state-wide level. Murray R. Benedict and Oscar C. Stine, The Agricultural CommodityPrograms ,New York: Twentieth Century Fund, 1956,p. 444.

was of such proportions that many farmers could not even pay their taxes or other debts. Moreover some farmers could not even provide sufficient foods to their families and had to sell their farms for no profit to themselves and hence deepening the farmers' depression.

Beginning in Arkansas in 1930, a severe drought spread across the Great Plains through the middle of the decade. For years American farmers overplanted and poorly managed their crop rotations, then, when the severe drought conditions prevailed across much of America's Plains, million acres of farmland were rendered useless. Soil turned to dust and large dark clouds could be seen across the horizon in Texas, Oklahoma, Kansas, Nebraska, Colorado, and New Mexico. This ecological disaster became known as the Dust bowl.

The drought which lasted from 1930 to 1941 aggravated the problems of the Great Depression. As more than a million acres of land were affected in the Dust Bowl, thousands of farmers lost their livelihoods and property, and joined the ranks of the unemployed. Consequently, a mass migration patterns began to emerge for farmers left rural America in search of work in urban areas. Encouraged by handbills promising good jobs 350 000 south westerners went to California .[1]

The consequence of the drastic fall in agricultural prices and the Dust Bowl was the worsening of farmers' conditions. Moreover, the loss of urban and international markets affected farmers who were already in trouble from overproduction and, usually, from a burden of debt contracted in order to expand production and buy agricultural machinery. Hence farm prices continued fall during all the decade leaving farmers in a very vulnerable situation and reducing farm income more than any one else.

Just like agriculture, industry was seriously hit by the crash and the subsequent recession .By 1929, factories were producing more than American could purchase. Yet the weakening demand was masked by the credit expansion of the era. In addition, as long as the expansion of capitals continued, the profits went into the building of new

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[1]- James A., Henretta et al , Op.cit., p.784.

industrial plants which created new investment and stimulated the economy.[1]

When the stock crashed, a big number of businessmen lost their funds. In addition the banking crisis that followed worsened the situation and that for two reasons. First, banks had invested an important portion of the depositors' money in buying shares or providing credits for speculation, yet, in the absence of insurance that guaranteed the saving of people, when banks closed all that money disappeared. Second, businesses that relied on credit could not afford to their needs for it became difficult for firms and corporations whose shares went down to borrow the money they needed just to keep their businesses afloat. Furthermore, confused businessmen, when they did not lost their wealth, saw their only hope in retrenchment .Yet, the more they retrenched the worst conditions became.

As a result many companies mainly in construction, automobile, steel and railroad industries went bankrupt, at the middle of the year 1932,American industry as a whole was operating at less than half its maximum1929 volume and American business as a whole recorded a net loss of over five billion dollars .[2]

On the other hand, buying goods (mainly durable goods)on instalment plan was the common thing to do for middle class families in order to get cars ,radios ....For instance ,in 1927,two third of the cars in the US were being paid off on instalment plans .Hence by 1929,banks and finance companies were lending consumer over $7 billion a year and consumer lending was the tenth largest business in the USA.[3]Hence, the optimism of the twenties led business to increase their production nevertheless the purchase power of the working class remained relatively stable hence the majority of industrials produced more than they could sell.

Then, when the financial system collapsed there was no credit to stimulate the purchase power. Although interest rates had dropped to low levels by the middle of 1930, the expected deflation made that people did not want to add new debt by

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[1] -Lionel Robins,the Great Depression,New York, Macmillan,1943,p.4.
[2]- Frederick Lewis ,Allen, The Big Change , p.141.
[3]- James A., Henretta et al , Op.cit., p.748.

borrowing. Therefore, the sale of goods that relied on the credit instalment knew a severe decline. Sales of new cars, for instance, dropped from 4.5 million in 1929 to1 million in 1932.[1]

Yet it was the change in consumption that explained the fall in prices ;the development of cautious savings on one hand and the decline of revenue due to unemployment on the other affected the demand for manufactured goods and reduced consumption spending which in return reduced investment .The following tables explain the decline in both consumption and investment :

Table 7

Consumption(in billions)

	Durable goods	**Non durable goods**	**Services**
1929	9.2	37.7	30.3
1930	7.2	34.0	28.7
1931	5.5	29.0	26.0
1932	3.6	22.7	22.0
1933	3.5	22.3	20.1

Table 8

Investment

Private investment(% of Gross National Product)	
1929	14.1%
1930	11.7%
1931	8.9%
1932	5.8%
1933	5.3%

Source: Yves Le Diascorn, Didier Blondeel, Op.cit. p.79.

1-Hugh, Brogan, Op.cit., p.514.

As a result, firms and companies started either to cut back their production or lay off workers or to close altogether forcing many people into unemployment. At this level, some observers argue that the Great Depression became self- perpetuating, each bankruptcy, each suspension of payment, and each reduction of investment affected other concerns. Therefore the more the economy contracted, the longer people expected the Depression to last, and the longer they expected it to last the more afraid they were to spend or invest their money which was exactly needed to stimulate the economy.[1]

On the social scale the Great Depression had a substantial and varied impact on the lives of Americans. However, the most important social consequence generated the economic crisis was unemployment.

Before dealing with this feature, it is important to mention that before the Great Depression there was no official counting of the unemployed .The estimations that had been done under the pressure of the crisis varied from a reference to another. Nevertheless, Unemployment during the Great Depression was at one of the highest levels in the US history.

At the beginning of the crisis the unemployed were about 1. 500.000 but in1930 their number peaked to 3.250.000.[2]Yet, conditions continued to worsen. When workers lost their jobs, they bought less goods and services because they had less income. The businesses where they had spent their money now had fewer customers so they might have to lay off even more workers whose household income then declines also ,Again another self-perpetuating effect of the Depression .Therefore, unemployment in the following three years soared to 25% leaving more than 13 million Americans out of work.[3] Some remained unemployed for years and many people could not find even part-time work. Those who had jobs were unsure of the future and faced major wage cut. Indeed the total amount of the paid salaries dropped from $50 billion in1929 to $30 billion in 1932 .[4]

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[1]- James A., Henretta et al , Op.cit., p.772.
[2] -Brogan ,Hugh , Op.cit.,p.511.
[3] - H.C.,Allen, Les Etats Unis: histoire/politique/economie, Marabout université. p.70 .
[4]- Broadus, Mitchell, Depression Decade, New York, Macmillan, 1947,p.78.

Effectively, then, almost one out of every two U.S. households directly experienced unemployment or underemployment. It is important here to mention that the Great Depression badly affected the American people because there was no insurance programme for unemployed workers. In this case, people relied mainly on private charity and the Red Cross to help them, yet the increasing number of the unemployed made that this kind of help was not enough.

The hardship of unemployment, though concentrated in the working class, affected millions in the middle class as well. With the collapse of economy, and the decrease of personal income the demand for services declined which affected the "white collar workers" (doctors, architects ,lawyers, engineers..).Consequently, by 1932 this class of workers experienced, and for the first time, unemployment.

One of the results of unemployment was the increasing numbers of hoboes .In fact, as people lost their jobs and savings, and couldn't keep up with their payments, mortgages on many homes and farms were foreclosed. Homeless people set up homes in shantytowns, which were called "Hoovervilles" (named for President Herbert Hoover).[1]

The Depression not only affected economy, but it had also physical and psychological effects on people .During this decade many people lacked adequate food, shelter, and clothing .Furthermore, as Americans believed in self-reliance and that success went to those who deserved it self-blame and self-doubt became epidemic. Traditionally, men were expected to provide goods and services for their families, it was then humiliating for them to have to ask for assistance. Indeed it took many years for men to understand that unemployment was a large social problem not a matter of personal failing.

Many men argued that women, especially married women, should not be hired while men were unemployed. Yet the percentage of women in the workforce actually

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[1]– Near the city dumps and along the railroad tracks, the dispossessed huddled in shacks of tarpaper and galvanized iron, in old packing boxes, and abandoned cars.These squalid settlements were called "Hoovervilles",a "Hoover blanket" was a newspaper,a "Hoover flag" was an empty pocket turned inside out . George B.,Tindall, and David E., Shi , Op.cit., p.700.

increased slightly during the Depression, for many women took jobs to replace their husbands' lost pay or to supplement reduced wages

The effects of the Depression on children were often radically different from the impact on their parents. During the decade of depression many children took on greater responsibilities at an earlier age. Some teenagers found jobs when their parents could not, reversing the normal roles of provider and dependent. Hence the Depression that weakened the self-reliance of many adult men strengthened that quality in many children.

Black people suffered to an even greater extent than whites, since they were usually the last hired and first dismissed. By 1932 about the half of the nation's black workers were unemployed. Blacks were frequently forced to give their jobs to the unemployed whites. Yet the depression decade was one of important positive change for blacks. It was the first time that governmental programme prohibited racial discrimination. Although these rules were ignored in the South, the fact that they were established was a major step forward for black people.

The misery of that time was of such a proportion that a number of riots and protests were organised. Farmers' groups, for instance, harassed bank agents and government officials to protest against farm foreclosures and low prices. In other areas, despite the threat of loosing their jobs, the workers went into strikes to denounce the wage cut.[1] In many cities groups of unemployed people organised riots and hunger marches to ask for adequate relief programmes.[2]

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[1]-In Harlan County, Kentucky, where miners struck in 1931 over a10 percent wage cut,only to see their union crushed by the mine owners and the National Guard. At Ford's River Rouge factory outside Detroit 1932 a demonstration provoked violence from police and Ford security forces; three demonstrators were killed and fifty were seriously injured . James A., Henretta et al , Op.cit., p.792.

[2]-Some of these urban actions were organised by the Communist party in challenge to the American capitalist system. For example the Communist party helped organise "unemployment council" that agitated for jobs and food and coordinated a hunger march on Washington, D.C, in 1931.The marches were well attended and often got result from local and federal authorities, but they did not necessarily win converts to Communism. In early 1930s the Communist party was still a tiny organisation with only 12,000 members.Ibid.

Yet, the most known protest was The Bonus Expeditionary Force, better known as the Bonus Army[1], one. In 1932, a group of WWI veterans who had been denied their bonus for wartime services organised the first demonstration in Washington. About 12.000 to 17.000 unemployed veterans squatted in abandoned buildings, planning to stay until they got their money. President Hoover overreacted and sent in the army to break up this peaceful demonstration.

While the Great Depression affected some sectors of the economy more than others and thus some regions of the country more than others, all sectors and regions experienced a serious decline in output and a sharp rise in unemployment. Hence, the most obvious impact of the Great Depression was human suffering. In a short period of time world output and standards of living dropped precipitously. Because the Depression caused so much suffering, it is not surprising then, that the issue of recovery became the major political concern in the United States.

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[1]-They had come to ask Congress to pay them a "bonus" promised to veterans in 1924 and scheduled to be paid in 1945.Starving and desperate men They had families going hungry,no jobs,and no prospect of finding one.They needed that bonus to survive. Kenneth.C, Davis, Op.cit., p. 274.

CHAPTER THREE

THE GOVERNMENT'S RESPONSE TO THE CRISIS

The stock market crash of 1929 was an indication of serious, underlying weaknesses in the United States economy, but it was not the sole cause of the Great Depression. The Crash merely made the cracks in America's superficial prosperity much more obvious. And, since the causes of the economic crises were complex, the solution to the economic problems facing the United States would be complicated as well. In this respect, the following chapter will examine the government's response to the crisis, as well as its impact on the US economy . Thus, it will first deal with President Hoover's reaction toward the Depression and then with President Roosevelt's New Deal, and the federal government's attempt to lift America out of the Depression.

1- President Hoover's Response:

Prior to the Great Depression, governments in the United States took little or no action in times of business downturn, relying instead on impersonal market forces to achieve the necessary economic correction. But market forces alone proved unable to achieve the desired recovery in the early years of the Great Depression, and this eventually inspired some fundamental changes in the United States' economic structure.

During the 1928 campaign, Herbert Hoover predicted that "It (America) has come nearer to the abolition of poverty "and that the USA had entered an era of unlimited prosperity.[1] Yet, once elected, it took only eight months to the stock market to crash and announce the beginning of the Great Depression. Hence, President Hoover who planned to preside over an era of Republican prosperity was confronted to the severest economic downturn in the US history.

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[1]-Refer to chapter one, section one,p.15.

Traditionally, President Hoover and the Republican administration were made responsible for the Depression and its subsequent misery. Yet, although firmly opposed to government entering in business,[1] President Hoover was the first president to undertake innovative measures to combat the crisis. As he put it:

> *the primary question at once arose as to whether the President and the Federal government should undertake to investigate and remedy the evils. . . No President before had ever believed that there was a governmental responsibility in such cases. No matter what the urging on previous occasions, Presidents steadfastly had maintained that the Federal government was apart from such eruptions . . . therefore, we had to pioneer a new field.*[2]

Moreover, according to historians, Hoover's early effort to fight the depression were the foundations of many New Deal programmes.[3] Thus, President Hoover's first step in dealing with the Depression, as it has been mentioned before, was to organise national optimism by asking business executives to declare that the economic conditions were sound and that prosperity will soon come back. In fact, President Hoover himself believed that economic recessions were part of the business cycle and that instead of interfering it would be better to let the whole economy readjust itself. Nevertheless, the self-correcting process did not occur, instead economic as well as social conditions worsened.

However, unlike the Federal Reserve Board, the President did not subscribe to Mellon's "liquidationist theory". The latter, whose tax policy in the 1920s has contributed to the growing misdistribution of wealth within the American economy,[4] advised that economic agents should be forced to re-arrange their spending tendencies as well as

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[1]-For further reading on Hoover's position toward business see appendix 1 on p 104.
[2]- Herbert Hoover, Op.cit.,p.79.
[3]- Rexford Guy Tugwell, one of the architects of Franklin Roosevelt's policies of the 1930s, explained: "We didn't admit it at the time, but practically the whole New Deal was extrapolated from programs that Hoover started." Paul, Johnson, A History of the American People , New York: HarperCollins Publishers, 1997, p.741
[4]- Refer to chapter one,section, p 14 .

their use of resources and that by doing so economy would be relieved from incompetent people. This theory in fact viewed the events of the Depression as a punishment for the speculative excesses of the 1920s which was not Hoover's point of view.

Nevertheless, direct federal relief to the unemployed ran counter to Hoover's strong beliefs about the limited role of government. As a result, he responded to the economic crisis with a goal of getting people back to work rather than directly granting relief. In this respect President Hoover determined that the government should intervene but in a limited way and with the voluntary cooperation of both business and labour. In this respect, an economist describes Hoover's economic views this way:

> *Where the classical economists like Adam Smith had argued for uncontrolled competition between independent economic units guided only by the invisible hand of supply and demand, he talked about voluntary national economic planning arising from cooperation between business interests and the government… Instead of negative government action in times of depression, he advocated the expansion of public works, avoidance of wage cuts, increased rather than decreased production—measures that would expand rather than contract purchasing power.*[1]

Hence, led by President Hoover, the government embarked on an anti-depression programmes marked by extensive governmental economic planning and intervention including bolstering of wage rates and prices, expansion of credit, propping up of weak firms, and increased government spending in the form of subsidies to unemployment and public works.

By the end of 1929, President Hoover organised a series of White House Conferences[2] in which he asked businessmen to maintain wage rates and expand their

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[1]- Joan Hoff, Wilson, Herbert Hoover: Forgotten Progressive. Boston: Little Brown, 1975, p. 68.

[2]-The first conference was on November 18, with the presidents of the nation's major railroads. Attending for the government were Hoover, Mellon, and Lamont, and also participating was William Butterworth, President of the United States Chamber of Commerce. The railroad presidents promised Hoover that they would expand their construction and maintenance programmes…The most important White House

investments and labour leaders not to ask for better wages or hours . All businessmen gave their agreement and announced it publically .In return he asked the Federal Reserve to return to an easier policy credit and the Congress to pass a tax reduction to stimulate people's purchasing power.

Yet, while, between 1929 and 1933, both profits and prices were falling, wages, which are a major component of the cost of doing business, remained relatively high. This disequilibrium created a deficit in business' profits. In this respect historians argue that the 'high wage' policy of the Hoover administration and the trade unions succeeded only in generating an increasing circle of unemployment and that "if it had not been for the prevalence of the view that wages rates must at all costs be maintained in order to maintain the purchasing power of the consumer, the violence of the present depression and the magnitude of the unemployment which has accompanied it would have been considerably less."[1] Therefore artificially induced expansion and wages brought losses to business and thereby aggravated the depression.

Then ,it was common during the Depression that the leading industrialised nations responded to the crisis by imposing trade barriers on imports with the hopes of increasing demand for domestically produced goods and to raise revenue from tariffs.

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conference was held on November 21. All the great industrial leaders of the country werethere, The businessmen asked Hoover to stimulate the cooperation of government and industry. Hoover pointed out tothem that unemployment had already reached two to three million,that a long depression might ensue, and that wages must be kept up! Hoover explained that " immediate "liquidation" of labor had been the industrial policy of previous depressions; that his every instinct was opposed to both the term and the policy, for labor was not a commodity: it represented human homes. . . . Moreover, from an economic viewpoint such action would deepen the depression by suddenlyreducing purchasing power". Hoover insisted that if wage rates were to be reduced eventually,they must be reduced "no more and no faster than the cost of living had previously fallen, (so that) the burden would not fall primarily on labor." In short, real wage rates must be prevented from failing. Hoover was insistent that the first shock of the depression must fall on profits and not on wages, On November 22, Hoover called a conference at the White House of leading representatives of the building and construction industries, and they also pledged to maintain wage rates and expand their activity. On November 27, the President called a similar conference of the leading public utility executives, and they unanimously pledged to maintain wage rates and expand construction.The latter included representatives of the American Gas Association, the National Electric Light Association, and the Electric Railways and American Railways Associations. Murray, Rothbard ,Op.cit., pp 210-11-12.

[1]- Lionel,Robbins, Op.cit., p. 186.

Yet, most historians and economists partly blame the American Smoot-Hawley Tariff Act for worsening the depression by seriously reducing international trade arguing that this Act converted a "sizeable recession into a severe depression"[1].

In fact, both the republican administration and the Congress believed that raising trade barriers would force Americans to buy more domestic goods, which would solve the overproduction and unemployment problem. Many economists signed a petition urging the President to veto the tariff bill instead he signed it into law. Hence the Smoot-Hawley Tariff Act which was the most protectionist legislation in US history was enacted in June 17, 1930 in order to raise tariffs still further, in order to boost farm incomes by reducing foreign competition in agricultural products.[2]

However, the act raised the rates of duty on wide range of goods; for example, the average rate increased from 20 percent to 34 percent on agricultural products; from 36 percent to 47 percent on wines, spirits, and beverages; from 50 to 60 percent on wool and woollen manufactures. In all, 887 tariffs were sharply increased and the act extended the list of dutiable commodities to 3,218 items.[3]

A crucial part of the Smoot-Hawley Tariff was that many tariffs were for a specific amount of money rather than a percentage of the price. Yet, falling prices characterized the Great Depression, hence as prices fell by half or more, the effective rate of these specific tariffs doubled, increasing the protection afforded under the act.

By raising tariff on raw materials, the Smoot-Hawley Act had a direct negative impact on some industries .For example tariffs on linseed oil, tungsten, and casein slowed down the U.S. paint, steel, and paper industries, respectively. More than 800 items used in automobile production were taxed by Smoot-Hawley. Most of the 60,000 people employed in U.S. plants making cheap clothing out of imported wool rags were

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[1]- Meltzer, Allen H. Monetary and other explanations of the start of the Great Depression. Journal of Monetary Economics 1976. 2:455-71. p. 469.
[2]- The Smoot –Hawley Tariff act came after the Fordney-Mc-Cumber Tariff of 1922, which had already put American agriculture in a recession during the preceding decade. Refer to chapter I,section1,p.17.
[3]-Barry W. ,Poulson, Economic History of the United States , New York: Macmillan Publishing Co., Inc., 1981, p. 508.

made unemployed after the tariff on wool rags rose by 140 percent. [1]

Therefore, the Smoot-Hawley Act and the raising tariffs created a sort of hesitancy among investors mainly those who relied on export to sell their products. The uncertainty about reactions to the tariff and about an eventual foreign retaliation to the Smoot- Hawley tariff slowed investment spending because investors and businessmen were not sure of being able to sell their goods abroad.

In this sense an economist argues that Smoot-Hawley was not an ordinary tariff. It was instead a major shift of the trade rules that "above all foster(ed) a climate of political recrimination and unpredictable reaction that must have greatly increased doubts in the minds of businessmen about investing in any activity for which foreign markets were important."[2]

Another result of the high tariffs was the inability of foreign investors to sell their goods in The Us market which means that they could not earn the dollars they needed to buy American goods. In addition foreign investors were forced to cut back their production which inevitably created unemployment abroad.

As a matter of fact, foreign governments followed soon, both in retaliation and in an attempt to force a correction of trade imbalances. Almost all nations then sought to protect their domestic production by imposing tariffs, raising existing ones, and setting quotas on foreign imports. With their ability to sell in the American market severely impeded, they reduced their purchases of American goods. In this respect both exports and imports decreased respectively from $5.241.000 and $4.399.400 in 1929 to $1.611.000 and $1.322.800 in 1932.”[3]

The firsts who suffered from this decline were American farmers who lost nearly a third of their foreign markets. Then even though tariff rates rose by up to 50%, imports declined so sharply that in addition to the loss of tax revenue from the domestic

[1]- Alan , Reynolds, What Do We Know About the Great Crash? National Review, November 9, 1979, p. 1419.
[2]-Cooper, Richard N., Fettered to gold? Economic policy in the interwar period, Journal of Economic Literature 30: 2120-8,1992, p. 2125.
[3]-Jaques ,Néré, La Crise de 1929,Paris, Arman Colin,1973, p .99 .

unemployment that the tariffs caused, in 1932 tariff revenues fell nearly by half their 1929 level .

It can be concluded then that the enactment of the Smoot-Hawley tariff in the United States and the worldwide rise in protectionist trade policies created other complications that deepened the economic downturn. Indeed the effect of these restrictive measures was to greatly reduce the volume of international trade: by 1932 the total value of world trade had fallen by more than half.

Another attempt to relief unemployment and keep wage rates high was Hoover's step toward immigration. On September 9, 1930, the President made it clear through his decree that all immigrants except the wealthy was a "public charge" on the US. Those who were for this policy argued that "foreign immigration had been utilised by the big business interests of the country as a direct weapon to break down the price of wages of the people of the land." [1] As a matter of fact, he reduced immigration from Europe by 90%. In addition, He deported sixteen to twenty thousand aliens per year.[2] Consequently, while the immigration law [3] had already reduced net immigration into the United States, Hoover's decree reduced net immigration to35,000 in 1931, and during the entire Depression there was a net emigration of 77,000.[4]

After that, on October 1930 President Hoover established The President's Emergency Committee for Employment (later renamed the President's Organization for Unemployment Relief) for the relief of distress .The latter organized committees in each

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1-Robert A. Divine, American Immigration Policy, 1924–1952 ,New Haven,Conn.: Yale University Press, 1957, p. 78.

2-The labour union movement applauded the program, with William Green urging increased Congressional appropriations for the Federal border patrol to keep out immigrants. In California, Filipino field hands were beaten and shot to keep them from employment in the agricultural valleys. Irving Bernstein, The Lean Years: A History of the American Worker, 1920–1933 , Boston: Houghton Mifflin, 1960, p. 305.

3- Racist objections to the "new immigrants" and the unionists fear that the newcomers were perpetuating a pool of cheap labour in the United States were reinforced by the allegations that they were radicals. This led employers who had previously favoured immigrants to switch to the restrictive side. In 1921 Congress passed an emergency immigration Act setting up a quota system …..This cut the number of immigrants from 800 000 in the year ending June 30,1921, to about 300 000 in the following twelve months…Congress in 1924 enacted the National Origins Act This measure not only banned people of East Asia but set a quota of 2 percent for Europeans based on the 1890census.It cut the yearly total to 164 000, heavily weighted in favour of those from north-western Europe .On July 1,1929, an overall limit of about 150 000 immigrants a year went into effect. Frank, Freidel,Op.cit.,p.140.

4- Ibid.,p.140.

state for unemployment relief and coordinated the efforts of local agencies. However, as the Depression worsened, charitable organisations were simply overwhelmed by the magnitude of the problem.

Hence , in1930 and the first half of 1931, President Hoover raised the federal public-work budget to $ 423 million[1] and called upon all governors to expand all state public works programmes mainly public construction with the aim of providing relief to the unemployed. Accordingly, the federal government's share of gross national product increased from 16.4 percent to 21.5 percent which constituted a large increase in government expenditures.[2] Nevertheless, this drastic cut in the government budget to stimulate economy would create later on a serious dilemma within Hoover's policy.

In The first half of 1931, economic indicators rose and there were signs of improvement. Yet the financial crisis that occurred in Europe on May of the same year, largely affected the American banking system and consequently the US economy. Therefore, convinced that the severity of the Depression was mainly due to the European financial conditions, President Hoover decided to organize an international moratorium in war debts and reparations. On June 1931, Hoover issued the "Hoover Moratorium", which suspended for a one year reparation payments both by Germany to France and by Allied war debts to the United States. The plan was met with much opposition, especially from France, who saw significant losses to Germany during WWI but was adopted later on yet this initiative did not ease the international economic crisis. In fact, by September of the same year, because of the financial crisis in Europe, England and many European countries abandoned the gold standard. Consequently, Europeans withdrew their gold from American banks and Europeans holdings of American securities dumped their actions on the market. This had disastrous effects both on the stock market and the American trade.

Then, under the political thinking of the day and with the deepening crisis, the federal government decided that it was prudent to pursue a balanced budget. The, as tax revenue was plummeting along with economic activity in the period from 1929 to 1932

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[1]- James A., Henretta et al , Op.cit., p.787.

[2]- Paul, Johnson, A History of the American People, New York: HarperCollins Publishers, 1997, p.740.

the government decided to raise taxes to recover the deficit.

In this respect, on December 1931, President Hoover, asked the congress for a 33% tax increase to balance the budget. Hence, in 1932, with the support of the newly elected Democratic majority in the House[1], President Hoover passed the largest peacetime tax increase in the history of the United States.[2]This came in the form of the Revenue Act in which new gift, gasoline, and automobile taxes were imposed; and postal rates were sharply raised. In addition, even bank checks were taxed "which accelerated the decline in the availability of money by penalizing people for writing checks."[3]

According to economists, the timing for this tax increase couldn't have been worse because tax increases are generally associated with decreases in aggregate demand for goods and services and the incentive to earn. Yet, the low tax rates prior to 1932 had not prevented the drop in demand and consumption .At that point the situation was becoming so severe that people who still had a job wanted only to keep their money and save it .Thus, the main obstacle to demand was probably fear of spending. For a better use of money, the federal government thought that it better for people to pay more taxes so that the government could spend it for them and stimulate the economy that way. Unfortunately, this did not provide the necessary stimulus for the economic recovery; instead, some observers considered that it was a factor which prolonged the downturn.

Since all the measures failed to stop the downturn, and under the pressure of Congress, Hoover decided to use governmental resources at least to help the financial institutions and stimulate the economy.

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[1]- In November 1930,the Democrats gained their first national victory wining a majority in the House of Representatives and enough gain in the Senate to control it with western agrarian . George B., Tindal and David E.,Shi, Op.cit.,p700-01.

[2]- the normal rate was increased from a range of 1 $^{1/2}$percent–5 percent, to 4 percent–8 percent; personal exemptions were sharply reduced, and surtaxes were raised enormously, from a maximum of 25 percent to 63 percent on the highest incomes. Furthermore, the corporate income tax was increased from 12 percent to l3:percent, and an exemption for small corporations eliminated; the estate tax was doubled, and the exemption floor halved; and the gift tax, which had been eliminated, was restored, and graduated up to 33a percent. Murray N.,Rothbard,Op.cit.,p287.

[3]-Larry, Schweikart and Michael, Allen, A Patriot's History of the United States: From Columbus's Great Discovery to the War on Terror , New York: Sentinel, 2004, p. 553.

Thus, on January 1932, Congress passed The Reconstruction Finance Corporation (RFC) .The latter was considered as the centre piece of Hoover's initiatives; it was in fact the first federal institution to intervene directly in the economy during peacetime. At The beginning, the RFC was provided with government capital of $500 million with authority to borrow $2billion more [1]to provide loans to railroads and banks. On July 21, 1932, Congress passed the Emergency Relief and Construction Act which doubled this amount and authorized loans to states for relief and public work , for self-liquidating construction projects, and for financing sales of agricultural surpluses abroad as well as agricultural credit corporations.

Yet while, some organisations were asking for more expansion in public works to relief unemployment and cure the crisis, Willford I. King, an economist of New York University, warned that wages must fall in proportion to the decline of commodity prices, in order to eliminate unemployment and pointed out that government employment at existing high wage rates would perpetuate the unemployment problem and deepen the recession.[2]

In the same time, however, President Hoover was not sure about his public works policy and made it clear in a conference at the end of February that his public works program, which had nearly doubled Federal construction since the start of the depression, had failed. He underlined that these programmes were very expensive and did not bring relief to the needy in remote regions and to those who were unable to perform such labour. Accordingly, by May 1932, President Hoover opposed any further extension of non-self-liquidating public works. But he induced the Reconstruction Finance Corporation (RFC) to lend abundantly for public dams, toll bridges, and slum clearance. However, the practical effect was to exhaust state and local financial reserves, Federal public works only increased by $60 million in 1932, to reach the $333 million .[3]

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[1]- George B., Tindal and David E.,Shi, Op.cit.,p.701.
[2]- Murray N.,Rothbard,Op.cit.,p.293.
3-Ibid.,p.295.

Then, to help homeowners, particularly those who had mortgaged their homes, on July1932, Hoover and Congress passed The Federal Home Loan Bank Act .The latter established 12 district banks ruled by a Federal Home Loan Bank Board to which $125 million capital was subscribed.[1] Indeed the system worked as follows: it gave loans to those who had mortgaged their houses in order to help them pay their debts and hence avoiding the foreclosure of their properties. The new Home Loan Bank System opened formally on October 15; yet, it did not start to lend until December. Accordingly, at the beginning of 1933, total loans were only $838 thousand outstanding, but by March all the district banks were operating, and the total reached almost $94 million by the end of the year.[2]

Clearly, when voluntary cooperation failed to cure the crisis the President turned to federal action to stimulate the economy and to confront the Depression he enlarged the principles of his new economics to break new paths in economic policy. Indeed, Hoover and his followers articulated a "more interventionist approach to the economic process"[3]

Yet , people's need during the Great Depression were also unprecedented, to many, government direct assistance to individuals seemed the to be the only remedy to the misery, but President Hoover, who believed in individualism and self reliance , was convinced that giving federal relief payments was Socialist[4]. Thus, he resisted this step throughout his term. Meanwhile, his critics argued that Hoover's policy was a symbol of his willingness to encourage business confidence while showing a complete indifference toward individuals.

Nevertheless, Hoover's efforts during his term confirmed that he has done more than any previous President has done during the precedent crisis. In this sense, a historian describes Hoover's reaction toward the crisis as follows: "No previous

1- Murray N.,Rothbard,Op.cit.,p.317.
2-Ibid .,p.318.
3- William J., Barber, Herbert Hoover, the Economists, and American Economic Policy, 1921-1933, New York: Cambridge University Press, 1985,p.1.
4- Socialism is a set of doctrines which aim to instate a fair society in which the community should own and develop for the benefit of all its members the sources of national wealth . Encyclopedia Encarta, Microsoft ® Encarta ® 2009. © 1993-2008 Microsoft Corporation .

administration had moved so purposefully and so creatively in the face of an economic downturn. Hoover had definitively made the point that government should not stand by idly when confronted with economic difficulty." [1]

Unfortunately, these efforts did not avert the downturn, by the end of his term all economic indicators fell to their lowest level since 1929.More important, some economists put the blame on these policies and put that Hoover's new departure aggravated the Great Depression.[2] Hence, in the public opinion, Hoover's reputation was forever clouded by the Depression and The Bonus Army incident that took place in the summer of 1932.

2- The Election of 1932:

On June 14, 1932, Republicans gathered in Chicago to nominate their candidate for the 1932 presidential election .As depressions generally hurt the party in power, they had little illusion about the outcome of the election. Thus, it was with a noticeable lack of enthusiasm that the delegates nominated Hoover for a second term on a platform that promised to balance the budget and keep tariffs high on foreign goods .In fact, despite the fall of all economic indicators, Hoovers intended to maintain the policy that he adopted during his first term. The Democrats for their part, had to chose between Al Smith ,the nominee of the 1928 election ,the powerful speaker of the House John Nance Garner of Texas[3]and Franklin Delano Roosevelt of New York .[4]The latter who won the

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[1]-David M., Kennedy, Freedom From Fear: The American People in Depression and War, 1929-1945, New York: Oxford University Press, 1999, p. 48.

[2]- Murray N.,Rothbard,Op.cit.,p.337.

[3]- John Nance GARNER (1868-1967) a Representative from Texas and a Vice President of the United States. He was born in November 22, 1868 at Red River County, Texas .He studied law, and became judge of Uvalde County, 1893-1896. member, State house of representatives 1898-1902; elected as a Democrat representative he served as Speaker of the House of Representatives (Seventy-second Congress); reelected to the Seventy-third Congress on November 8, 1932, and on the same day was elected Vice President of the United States on the ticket headed by Franklin D. Roosevelt; reelected Vice President in 1936 and served in that office from March 4, 1933, to January 20, 1941; retired to private life and resided in Uvalde, Texas until his death there on November 7, 1967. www.whitehouse.gov.

[4]- Franklin Delano Roosevelt (1882-1945) was born in 1882 at Hyde Park, New York--now a national historic site-he attended Harvard University and Columbia Law School. On St. Patrick's Day, 1905, he married Eleanor Roosevelt. Following the example of his fifth cousin, President Theodore Roosevelt, whom he greatly admired, Franklin D. Roosevelt entered public service through politics, but as a Democrat. He won election to the New York Senate in 1910. President Wilson appointed him Assistant

governorship of New York in 1928, was one of the few Democrats to survive the Republican landslide and had already paved the way to his nomination through his State's innovative relief and unemployment programme .

In fact Governor Roosevelt and his advisers laboured to convert New York into a laboratory for reform, involving conservation, old-age pensions, public works projects, and unemployment insurance. Governor Franklin D. Roosevelt of New York led the way for state relief programs in the winter of 1931–1932, and induced New York to establish the first state relief authority: the Temporary Emergency Relief Administration, equipped with $25 million.[1]

Hence, Roosevelt had already most of the delegates' vote yet he lacked the two third majorities to win nomination. After The third ballot, Garner decided to support Roosevelt and released his delegates for the profit of Roosevelt. Hence after the fourth ballot Roosevelt won the nomination and Garner was promised the vice-presidency.

For one, both Hoover and Roosevelt disagreed on Prohibition .The two candidates were advocating a repeal of the Eighteenth Amendment. Yet Prohibition was of a small concern compared to the issue of unemployment and the role of government in aiding the economy.

During the campaign, Roosevelt blamed Hoover for increasing government expenditures and raising taxes, boosting the national debt, choking off trade, and putting millions into unemployment .In addition, he accused him of presiding over the greatest spending administration in peacetime in all US history. All in all, Roosevelt made Hoover's administration responsible for the Depression.

Secretary of the Navy, and he was the Democratic nominee for Vice President in 1920.In the summer of 1921, when he was 39, disaster hit-he was stricken with poliomyelitis. Demonstrating indomitable courage, he fought to regain the use of his legs, particularly through swimming. At the 1924 Democratic Convention he dramatically appeared on crutches to nominate Alfred E. Smith as "the Happy Warrior." In 1928 Roosevelt became Governor of New York. He was elected President in November 1932, to the first of four terms. www.whitehouse.gov.

[1]- Murray N.,Rothbard,Op.cit.,p.300.

Thus, in his acceptance speech before the Democratic convention in Chicago, Roosevelt told the delegates "I pledge you, I pledge my self, to a new deal for American people."[1] Yet, during the campaign he remained vague about his programme. Roosevelt was for a balanced budget but he did not explain how the government could both aid the public and balance its own books while operating on a reduced budget, He promised to help farmers yet he did not outline a clear and specific programme for responding to the farm Depression.

At this point, historian argue that the Democratic platform was not much different from the Republican one.[2] Nevertheless, Roosevelt was much more flexible and willing to experiment than Hoover did .In this sense, he announced that "the country needs, and unless I mistake its temper, the country demands bold, persistent experimentation." [3]

Then, unlike, Hoover, Roosevelt was not opposed to government interference in business, he insisted that the government must assist business in developing a well regulated economic system arguing that "everyone had a right to a comfortable living; the nation's industrial and agricultural mechanism could produce more than enough. If need be, to achieve this end government must police irresponsible economic power."[4] Although his speech contained few concrete proposals, Roosevelt radiated confidence, giving many desperate voters hope.

To this issue, Hoover, retorted that the Democrats ignored the international causes of the depression and that Roosevelt's reckless proposals "would destroy the very foundations of our American system." [5]

Obviously, the presidential campaign of 1932 was chiefly a debate over the causes and possible remedies of the Great Depression. The deepening Depression and

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1- Franck,Friedel,Op.cit.,p.172.

2- "If Roosevelt had a plan in early 1933 to effect economic recovery, it was difficult to distinguish from many of the measures that Hoover, even if sometimes grudgingly, had already adopted." David M., Kennedy, Freedom From Fear: The American People in Depression and War, 1929-1945, New York: Oxford University Press,1999, p .118.

3- George B., Tindal and David E.,Shi, Op.cit.,p.707.

4- Frank, Freidel, Op.cit., p172.

5- George B., Tindal and David E.,Shi, Op.cit.,p.707.

The spectacle of soldiers confronting unarmed veterans and their families did little for Hoover's popularity or re-election chances. Thus, the results were a Democratic landslide: Roosevelt received 22,809,638 of the popular vote and 472 electoral votes whereas Hoover received 15,758,901 of the popular vote and 59 electoral votes carrying only six states.[1]

Besides, there were also two other parties who run the election ; the Socialist and the Communist who polled 882,000 and 103,000 votes respectively .[2] At that level, it is important to point that despite the misery of the time Americans remained committed to the two party system for the majority did not turn to radical alternatives.

More important, the 1932 election marked a turning point in American politics. Blamed for the Depression, the Republicans lost control of both Congress and the White House. The Democrats however, emerged as new coalition that would dominate the political life for the next four decades.

In the four-month interregnum[3] between the election and the inauguration, the economy deteriorated rapidly. Industrial production fell to its lowest level and banks, as mentioned before failed at such an alarming rate that virtually by the time Roosevelt took the oath of office, all states had imposed “a bank holidays” .[4]

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[1]- James A., Henretta et al , Op.cit., p793.
[2]- George B., Tindal and David E.,Shi, Op.cit.,p.707.
[3]- The Twentieth Amendment, which shortened the interregnum, was ratified on February 6, 1933. It provided that the president would take office thereafter on January 20 and the newly elected Congress on January 3 making Roosevelt the last president elected under the old system. Ibid.,p.708.
[4]- Dark rumours circulated about the radicalism of Roosevelt’s advisers, and of their willingness to go off the gold standard. Consequently, not only did gold “hoarding” by foreigners develop momentum, but even gold hoarding by domestic citizens. For the first time in the depression, American citizens were beginning to lose confidence in the dollar itself. The loss of confidence reached its apogee in February, 1933, the month before the Roosevelt inaugural. In that one month, the monetary gold stock fell by $173 million, and money in circulation increased by the phenomenal amount of $900 million, the reflection of domestic loss of confidence. Money in circulation totaled $5.4 billion at the end of January, and $6.3 billion by the end of February. $700 million of this increase was in Federal Reserve notes, and $140 million in gold coin and gold certificates. Murray N.,Rothbard,Op.cit.,p.324.

As he could not act, President Hoover tried to convince the President-elect that the bank crisis was due to a lack of confidence in Roosevelt's programme. Therefore he sought Roosevelt's commitment to return to economic orthodoxy .For instance he hoped that America and other nations would agree on the reestablishment of the gold standard after Roosevelt's inauguration ,yet the latter did not subscribed to Hoover's views and consequently would make no commitment .

In addition to the bank crisis, the winter of 1933 brought about widespread unemployment and great distress. A great number of people lived in a state of poverty facing hunger and diseases. In New York, for instance, hospitals reported ninety-five deaths from starvation.[1]

On March 4, President Hoover left office at the very depth of the Depression .For his part, in his inaugural address, Roosevelt expressed confidence that his administration could end the Depression. "The only thing we have to fear," he declared, "is fear itself." Nevertheless he was conscious that he was assuming office I a time of grave peril, as he put it:

> *Values have shrunken to fantastic levels; taxes have risen; our ability to pay has fallen, government of all kind 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 market for their produce; the saving of many years in thousands families are gone. More important, a host of unemployed citizens face the grim problem of existence, and equally great number toil with little return. Only a foolish optimist can deny the dark realities of the moment.*[2]

[1]- James A., Henretta et al , Op.cit., p.793.

[2]-Monroe, Heath; Clarence F., McIntoch, Great American Documents, Volume XI, Pacific Coast Publishers,California,1965,p 44. For further reading see appendix 2on p105.

3-<u>President Roosevelt's Response :</u>

To meet the devastation of the Depression President Roosevelt did not rely on traditional advisers such as politicians or big businessmen. Instead, he surrounded him self with a group of economic and academic advisors known as the " brain trust" .The latter included Raymond Moley, Adolf Berle, Samuel Rosenman, Hugh Johnson and Rex Tugwell. Just like the President, the brain trust members were strongly influenced by the progressive reformers of the early 20th century, who believed that government had not only a right but a duty to intervene in all aspects of economic life in order to improve the quality of American life.

Hence, Roosevelt's advisors intended to adopt a scientific management approach to deal with the crisis. In fact they believed that relevant data as well as the power of government, especially economic planning, could be used to improve on free-market coordination.

Besides, the brain trust attributed the Depression to many things. First they believed that under-consumption was one cause of the downturn, in this sense, they argued that the misdistribution of wealth had left many people without means to consume all the products, and that this disequilibrium between production and consumption was mainly due to a lack of coordination which characterized the free enterprise. Then the intense competition within business had led to the expansion of production and the fall of prices that consequently led to the cut of corporate profits. The brain trust also believed that the stock market and the scrupulous practices of people who played the market were another cause of the depression and argued that for economic growth to be possible the wealthy should share their fortunes with the rest of society. In a speech in San Francisco, President Roosevelt emphasized many of these themes, adding that his administration would have to face "establishing markets for surplus production; of meeting the problem of under-consumption; distributing the wealth and products more equitably and adapting the economic organization to the service of the people."[1]

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[1]- Burton, Folsom, <u>New Deal or Raw Deal? How FDR's Economic Legacy Has Damaged America</u>, New York: Threshold Editions, 2008, p.41.

Obviously, with regard to the experimental aspect of the New Deal,[1] observers argue that President Roosevelt and his advisors did not see the Depression as an incident but as a chronic problem of the US economy. Therefore, the New Deal programme aimed first to reform economic structures in order to reach economic recovery .[2]

In this respect, historians divide Roosevelt's years in office in the 1930s into two periods: the First New Deal (1933-1935) which was characterized by *relief* of the immediate problems of unemployment and the Second New Deal (1935-1937), which was characterized by *reform*.

a/The First New Deal 1933-1935 :

At the beginning of his administration, Roosevelt called Congress in a special session from March to June and launched the New Deal with fifteen bills that would reshape every aspect of the economy. Historians refer to this period as the "Hundred Days." Moreover, the President asked the Congress for more executive power in order to face the emergency. Henceforth, President Roosevelt introduced a new notion of the presidency whereby the president, not Congress, was the legislative leader. Most of the bills he proposed set up new government agencies that aimed to relief economy.

As mentioned before, President Roosevelt took office just when the severest crisis was hitting banks. To combat the crisis, some liberal members of Congress asked the President to nationalize the banks, yet the latter had no intention of taking such a radical step. Instead, on March 6, 1933, he declared a "national bank holiday," closing all banks, in order to give inspectors time to review their solvency. At the meantime, his aides drafted the Emergency Banking Relief Act which permitted solvent banks to

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[1]- In this sense, as a New Dealer put it: “We were wide open to the influx of ideas—new ones and old. Anything seemed acceptable that appealed to our common sense and was worthy of a trial.” Raymond, Moley , The First New Deal, New York: Harcourt Brace and World,1966, p. 224.

[2]- There is little evidence that recovery was first on the agenda of any of these competing groups [of FDR advisors]; rather, all intended first to reform industry in one way or another, in order to move to the ‘correct’ path of recovery.” Gene, Smiley, Rethinking the Great Depression, Chicago: Ivan R. Dee, 2002,p. 97.

reopen under government supervision, and allowed the RFC to buy the stock of troubled banks and to keep them open until they could be reorganized. The law also gave the president broad powers over the Federal Reserve System.

On March 12, he broadcast the first of many “fireside chats” on the radio declaring that only those banks in sound financial health, those which had passed inspection, had been allowed to reopen.” I can assure you,” he declared, “that it is safer to keep your money in a reopened bank than under the masters”[1]. Yet most banks were only closed for ten days, which means that only a very few were actually investigated. Nonetheless, when the banks reopened, the American public entrusted them with their money once more, which actually made the banks solvent. Thus, by restoring public confidence in the banking system of America, Roosevelt saved it at no cost to bankers or to the government. In addition, the “bank holidays” liquidated the insolvent banks. In this sense it has been reported that “more than 5,000 banks still in operation when the holiday was declared did not reopen their doors when it ended, and of these, over 2,000 never did thereafter”. [2]

A further step in the financial sector was the passage of the Glass-Steagall Act in 1933 which aimed to curb speculation by separating the commercial banks from investment ones .More important, the Act created the Federal Deposit Insurance Corporation which guaranteed deposits which guaranteed deposits up to $2500.[3] Scholars argue that in terms of impact, the Glass-Steagall Act can be viewed as the most significant piece of New Deal monetary legislation for the FDIC created a sense of security for savers that significantly contributed to reduce the runs on financial institutions and the consequent number of bank failures. In fact the FDIC functioned so successfully that the guarantee was raised by successive stages to reach $15 000 .[4]

[1]- Frank, Freidal , Op.cit.,p.177.
[2]- Friedman and Schwartz, Op.cit., p. 330.
[3]- Frank, Freidal , Op.cit.,p.187.
[4]- Ibid.

Then, on April1933, Roosevelt undertook another fiscal policy which was the abandoning of the gold standard. Following the European nations, for instance, Great Britain and Germany who abandoned the gold standard in 1931 and 1932 respectively, the President devalued the dollar in order to raise domestic commodity prices and ease the debt burden on investors and farmers. To achieve this task, Congress gave the president the power first to seize the private gold holdings of American citizens and then to fix the price of gold. The latter was settled at 21-cents to one once of gold .Then, he refused to come back to the gold standard in the World Economic Conference of July 1933 arguing that "The world will not long be lulled by the specious fallacy of achieving a temporary and probably an artificial stability in foreign exchange on the part of a few large countries only", and that "The sound internal economic situation of a nation is a greater factor in its wellbeing than the price of its currency." [1]

Devaluation, however, did not increase output directly. Rather, it allowed countries to expand their money supplies without concern about gold movements and exchange rates. In the case of the United States the monetary expansion that began in early 1933 was particularly important. The substantial gold inflow to the United States led to a monetary expansion which in return stimulated spending by lowering interest rates and making credit more available. In addition, it created expectations of inflation, rather than deflation, and so made potential borrowers more confident that their wages and profits would be sufficient to cover their loan payments. Although this policy did not please to fiscal conservatives, it allowed the Fed to manipulate money in accordance to the economic conditions rather than to the value of the dollar in a fixed standard. This expansion in return raised domestic prices of commodities and stocks.

Another target of the New Deal's programme was Wall Street. As stated before, the president and his advisors believed that fraud and other abuses had contributed to the 1929 stock market crash. Therefore, to protect investors, Congress passed the Truth Security Act on May 27, 1933. The latter required that full and accurate information

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[1]- Edgar B., Nixon, Franklin D. Roosevelt and Foreign Affairs, January 1933-February 1934 ,Cambridge, MA: Harvard University Press, 1969, I, p. 269.

concerning new securities must be given to the public .A year later, Congress established the Securities and Exchange Commission to police the stock market. In fact the commission had the power to regulate the margin buying and reduce speculation and although these regulations provoked the protest of Wall Street administrators; they were largely approved by the large public.

Another urgent priority was relieving the widespread personal distress caused by the downturn; Roosevelt's administration took a first step toward this flail and established the Civilian Conservation Corps (CCC) on March 31, 1933. The latter consisted of public works project, operated under the control of the army, which was designed to promote environmental conservation .It took a quarter of a million unemployed young men and employed them in carrying out a gigantic programme of reforestation, dam-building, and marsh-draining .The CCC housed the young men in tents and barracks, gave them three meals a day, and paid them a small stipend. This project became one of the most popular New Deal's programmes, over ten years it enrolled more than two million young Americans who worked for $1day.

Furthermore, on May12, 1933 the Congress passed the Federal Emergency Relief Act (FERA) which allowed the government to come directly to the rescue of the unemployed .It provided 500 million dollars[1]to state and municipal agencies. These funds were used to support public buildings and bridges, to finance college education for poor students and set up daily care centres for poor families. Moreover it provided direct cash payments to the chronically unemployed.

Far more ambitious step for relief came with the establishment of the Civil Works Administration (CWA) in November 1933.This agency provided federal jobs to those who had no jobs for the winter. In fact the CWA, which put into work more than four millions American, was established when the government realised that the FERA programmes could not bring total relief. Yet, as its costs increased reaching one billion dollars, President Roosevelt, who did not want to run a deficit budget, decided to solve

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[1]- Hugh, Brogan, Op.cit., p.526.

the agency by the spring of 1934,arguing that the CWA had served its purpose by helping people during the winter. Consequently, by April, four million people were again unemployed.

Meanwhile, President Roosevelt moved rigorously to address the crisis facing the nation's farmers. In this respect ,the government set up a variety of agencies such as: The Soil Conservation Service which helped farmers battle erosion; the Farm Credit Administration which provided some relief from farm foreclosures and the Commodity Credit Corporation that permitted farmers to use stored products as collateral for loans. However, Roosevelt's most ambitious farm programme was the Agricultural Adjustment Act (AAA) .The latter was created in May 12, 1933, in close collaboration with the leaders of the major farmers' organization to help American farmers by stabilizing prices and limiting overproduction. They agreed upon a "domestic allotment" plan that would assign acreage quotas to each producer, in return the AAA initiated the first direct subsidies to farmers who did not plant crops. Yet, this plan had two major flaws. People were outraged to see government's methods[1] to draw prices up. Then, as farmers had to cut production , farm owners often did it by reducing the acreage of their renters and sharecroppers .In the south, for instance, this method had a racial component ,consequently about 200,000 black tenant farmers left the land and many poor farmers migrated to northern cities and California to find jobs. Later in 1936, the United States Supreme Court declared the AAA unconstitutional and an unnecessary invasion of private property rights.

Another strategy to bring relief and higher living standard to farmers was implemented in the Tennessee Valley Authority (TVA) of 1933.The latter provided millions of dollars to transform the economies of seven depressed, rural Southern states along the Tennessee River. It proposed building dams and power plants to bring electric power to the rural areas of these states. Although the TVA meant that for the first time

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1-By the Congress acted, the growing season was already advanced and the prospect of another bumper cotton crop created an urged problem .As a solution The AAA reluctantly resolved to destroy the growing crops. In addition ,it encouraged farmers to destroy young live-stock as a means of rising prices. Critics after labelled Agriculture Secretary Wallace as the "assassin of little pigs". George B., Tindal and David E.,Shi, Op.cit.,p.713.

Americans in rural areas would have the opportunity to share in the benefits of electricity and running water, and provided jobs to thousands of unemployed construction workers, the project was of great controversy for it embodied an unprecedented involvement of the government in what has once been the exclusive domain of the private enterprise. Therefore, while liberals saw it as a successful example of government solving social and economic problems, critics qualified it as socialistic.

As for finance, agriculture and unemployment, Roosevelt's New Deal sought relief for business. The hard depressed businessmen asked for government enforcement to help them weather the crisis and regulate competition.[1] Thus, the National Industrial Recovery Act (NIRA) was signed on June 16, 1933. When he signed the act President Roosevelt called it "the most important and far-reaching legislation ever enacted by the American Congress."[2] The act established the National Recovery Administration (NRA) to help revive industry and labour through rational planning. In fact, this programme aimed to stabilise the economy by ending ruinous competition, overproduction, labour conflicts, and deflating prices.

Thus, to stimulate production and regulate competition, representatives of business set up a series of codes designed to regulate prices, industrial output, and general trade practices that the federal government, in turn, would agree to enforce. In return for their cooperation, federal officials promised to suspend anti-trust legislation that forbade the legislation of such codes. More important, the NIRA recognised the rights of labour to organise and to have collective bargaining with management. The NIRA was the most controversial piece of legislation to come out of the Hundred Days and many of its opponents charged it with being un-American and socialist.

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[1]- The real difficulty, as business leaders saw it, was that excessive competition had destroyed profitable operations, undermined business confidence, and reduced the rate of investment. The solution, they maintained, lay in devices that would stop competitive price cutting and insure a reasonable profit, in price fixing, production controls, and extensive regulation of trade practices. E.W., Hawley, The New Deal and the problem of monopoly, Princeton: Princeton University Press, 1966,pp 26-27.

[2]- Frank, Freidel, Op.cit., p.183.

Furthermore, the NIRA was considered as "an antirevival measure" for "...Through the whole period of the NRA industrial production did not rise as high as it had been in July 1933, before NRA came in."[1]

Indeed for labour, the NRA had two sides. On the positive side, the codes abolished child labour and established minimum wages and maximum working hours . In addition, the NRA boosted the labour movement by drawing large numbers of unskilled workers into unions. On the negative side, however, the NRA codes set wages in most industries well below what labour demanded, and large groups, such as farm workers, fell outside the codes' coverage. In addition, corporations rarely respected the right of labour to bargain. In fact because of the number and complexity of the federal government never enforced labour's right of collective bargaining. The NRA boards, which were dominated by representatives of big business, drafted codes that favoured their own interests over those of small competitors which systematically hurt small businesses.

Moreover, while some newspapermen were reporting that the agency was dominated by big business; businessmen also developed a suspicious pattern toward the NIRA. In effect, even though they controlled the new agency from the outset, many leaders of big business resented the NRA for interfering in the private sector.[2] Within two years, in a case involving the NRA, the Supreme Court declared the NIRA unconstitutional .[3]

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[1]- Benjamin M., Anderson, Economics and the Public Welfare: A Financial and Economic History of the United States, 1914-46, 2nd edition ,Indianapolis: Liberty Press, 1979, pp. 332-334.

[2]- If pro-competitive tendencies were hardly traceable in the NIRA, the national planning impulse was likewise more a theoretical possibility than a realistic prospect. Replicating the War Industries Board experience, the National Recovery Administration was staffed with administrative officials who had close ties to the business groups engaged in code making and implementation. From the outset, the code formulation process was dominated by the business interests engaged in writing the codes. Rarely did labour and consumer representatives participate, and government members of the team were encouraged by NRA head Hugh Johnson to play a distinctly subordinate role. Robert L., Rabin, Federal Regulation in Historical Perspective in Stanford Law Review, Vol. 38, No. 5 (May, 1986), pp. 1189-1326, http://www.jstor.org/stable/1228843 Accessed: 24/06/2009, p.1245.

[3]-The constitutional basis for the NRA was the power of Congress to regulate commerce among the states, but the test case involved alleged code violation by the Schechter brothers, who were operating a wholesale poultry business confined to one locality, Brooklyn. Among the charges against them were the selling of poor-quality poultry and the unfair treatment of employees. The Court unanimously held that the Schechters were not engaged in interstate commerce and that Congress had unconstitutionally delegated legislative power to the President to draft the codes. Frank, Freidel, Op.cit., pp184-85.

Despite all the relief programmes of the New Deal, the Depression was still far from over .Even if production and consumption rose, their level remained below the pre-Crash levels. At the same time, government funding slowed down, and critics attacked Roosevelt for not doing enough to combat the deepening depression. As a result, a series of violent strikes began and culminated on Labour Day 1934, when 500,000 workers launched the single largest strike in the US history.

Hence, following the congressional elections of 1934, in which the Democrats won new seats both in the House and the Senate, Roosevelt decided that bolder action was required and abandoned his policy for a balanced budget. This decision came about, in part, because of the social concerns of the President but also because of mounting criticism from the political left and the political right of the policies of the First New Deal.

In fact, the right-wing of American politics was for less government's interference in the economy. Chief among his critics was the Liberty League. The later was founded in August, 1934 by business leaders and conservative Democrats who wanted to fight for free enterprise, states' right and the end of the New Deal bureaucracy .To convince people ,Liberty League speakers toured the country accusing Roosevelt of instituting creeping socialism.

The other personality of the Right was Father Charles Coughlin (1891-1979).At first, he supported the New Deal, but then he became increasingly upset at the slow pace of reform as well as his inability to play a major policy-making role in the Roosevelt administration. Indeed, Coughlin blamed the depression on greedy bankers and challenged Roosevelt to solve the crisis by nationalizing banks and inflating the currency. As Roosevelt refused to heed his advice, Coughlin broke with Roosevelt and in 1934 formed the National Union for Social Justice which denounced recipients of government assistance and claimed the New Deal led the country toward a Communist dictatorship. He suggested Nazi Germany[1] would prove to be America's correct model

[1]- Nazism was the ideology of the National Socialist German Workers Party (NSDAP) or the Nazy Party Which was led by Adolph Hitler. This doctrine constituted the ideological foundations of the Third Reich which ; a totalitarian and racist regime which held that the Aryan race was superior and promoted German racial supremacy as well as a strong centrally governed state. In the late thirties, this military regime whished to conquer Central Europe which led to the Second World War. Encyclopedia Encarta.Op.cit.

and blamed the Depression on a Jewish conspiracy. In addition, he viewed as criminally wasteful some of the methods used under the AAA to limit overproduction. At the height of his popularity millions of Americans listened to his radio sermons each week which made him the most vocal critics of the New Deal.

On the other hand, the left –wing embodied both the traditional Left (The Socialist Party of America) and the unconventional left (Dr. Francis Townshend and Senator. Huey P. Long of Louisiana). In 1932 the Socialists' presidential candidate Norman Thomas had tripled his 1928 votes. Nevertheless, nobody thought that he represented an electoral threat to FDR; the president, however, was sensitive to the Socialists' rising popularity.

Another figure of the Left was Dr. Francis Townsend. The latter was a California physician who argued in favour of a federally-funded old-age pension as a means of ending the Depression. Seeing that many old people were in bad conditions, Townsend embraced old-age relief as the key to recovery. In January 1934, Townsend announced his plan arguing that turning the nation's elderly population into robust consumers would solve the underlying problem of weak demand. His plan demanded a $200 monthly pension for every citizen over the age of 60. [1] In return, recipients had to retire and spend their entire pension every month within the United States and consequently, younger Americans would inherit the jobs vacated by senior citizens, and the economy would be stimulated by the increased purchasing power of the elderly. Although critics viewed the Townsend plan as inappropriate, several million Americans found his plan refreshingly simple. Consequently, Dr. Townsend's clubs began to spring up across the country to reach the number of five million followers.

Yet, the most powerful New Deal critic from the political left was Huey Long (1893-1935), governor of Louisiana and later a United States Senator from that state. Long used his power to expand Louisiana's underdeveloped infrastructure and helped build new hospitals, schools, highways, bridges, and the state's university and

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[1]- James A., Henretta et al , Op.cit., p.802.

claimed for a fair distribution of wealth which made him the most powerful and popular governor in Louisiana's history. Just like Coughlin, he supported the New Deal, but soon found it too conservative and he increasingly believed that FDR favoured the demands of big business. Then, Long established the Share-Our-Wealth Society, an organization that advocated taxing the rich to help the poor.

In this respect, he promised huge, confiscatory taxes on incomes over $1 million and inheritances over $5 million in order to guarantee an annual household income of $2000 for each American family.[1]In addition, he promised free college education shorter working days and Government storage of crops to help out both farmers and the poor. Therefore Long's policy found followers not only in Louisiana, but also among low-income rural families across the country. By mid-1935, Share-Our-Wealth Clubs had seven million members and Long talked openly about challenging Roosevelt in the upcoming presidential election. Long's rising popularity (before his assassination in 1935) further demonstrated to FDR the discontent of the people.

Hence, as Townsend, Coughlin, and Long became popular, the New Dealers realised that that Roosevelt was politically vulnerable on the left, moreover, they feared that the three man joined forces to form a third party depriving the president from a large segment of his popular support.[2]

Therefore, in the face of these pressures, President Roosevelt backed a new set of economic and social measures within the Second New Deal; among them measures to fight poverty, to counter unemployment with work and to provide a social welfare state system.[3]

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[1]-JamesA.,Henrettaetal ,Op.cit.,p.803.

[2]- The critical weakness of each of these charismatic figures was that they had no national political organization. Yet, Roosevelt had to fear a third party movement that might make him vulnerable to a moderately conservative Republican candidate. There was also a serious erosion of New Deal support indicated by several popular state-based political movements such as the Progressive Party in Wisconsin, the Farmer-Labour Party in Minnesota, and Upton Sinclair's Democratic primary victory in California. See Robert S., McElvaine, The Great Depression: America, 1929-1941,New York: Time Books,1984,pp.231-37.

[3]- The welfare state refers to a variety of government programmes whose aim is to assist the poor and to protect individuals from the rigorous control of the market place. W.J., Baumol and A.S.,Blinder,Op.cit.,p.894.

b/ The Second New Deal 1935-1937:

While some historians characterise the Second New Deal as FDR's radical shift to the left, others view it as an example of Roosevelt's pragmatism in dealing with the crisis. Once again the president confirmed his willingness and flexibility to experiment.

In deed the first phase of the New Deal made it clear that the commitment of FDR's administration to direct federal government intervention through massive spending programs, for instance the CCC, the FERA and the CWA programmes, aimed at the amelioration of individuals' conditions. However, both the NIRA and AAA, employed regulatory controls on firms and producers thus deviating the New Deal toward a direction that assumed that stimulation of the production side of the economy would revitalize the market and restricted recourse to large-scale public spending. The result of these changes made that the second phase programs concentrated on the distribution of government largess rather than controls on the behaviour of industry and agriculture. In a sense the New Dealers sought to improve economic activity through direct stimulation of demand rather than by limiting production.

However, if the First New Deal concentrated on relief, dealing with the immediate issue of getting unemployed Americans back to work, then the Second New Deal was much more innovative since it focused on social reform issues and attempted to cure the depression by stimulating consumption rather than reducing production.

In fact, despite his reticence about large expenditures and with the coming of the 1936 presidential election, President Roosevelt asked the Congress for more legislation. As a result the largest appropriation in American history, almost five billion dollars,[1] was voted by Congress to establish the Works Progress (later Project) Administration. This legislation was not much innovative for to deal with unemployment, once again the administration got recourse to public works. Nevertheless, the WPA of 1935 which was a huge federal jobs program, promoted both economic relief and reform for it sought to

[1]-Robert L., Rabin, Op. cit. p., 1249.

hire unemployed breadwinners not only for the purpose of reducing unemployment but also for strengthening their family's well-being as well as boosting consumer demand. In dealing with unemployment this programme required to choose projects that would not compete with private business and employed workers at a "security wage" which was in fact twice the level of welfare payments, but well below union scales. Despite the critics that viewed it extravagant and inefficient, the project built many worthwhile projects among which were hospitals, schools, airports, bridges and roads. Between 1935 and 1943 the agency had employed about 8.5 million Americans and had pumped $10,5 billion into the economy .[1]

In addition to building the nation's infrastructure, the WPA funded unemployed artists and authors to promote American culture. Thus, five percent of the WPA's spending went to The Federal Theatre, Arts, Music, Dance, and Writers' Projects brought music and drama to even the smallest communities, sponsored public sculptures and murals, and commissioned noted American writers, to write regional guidebooks and histories of the American people. In fact the efforts of the WPA marked the first time that the federal government tried to support and promote actively American art and culture.

Despite the Unions' strike to protest the programme's refusal to pay wages equal to those of the private sector and the high costs of the programme, The WPA was probably one of the social programs that was most practical in those New Deal days for observers argue that it created the unmistakable impression that government spending was being used to attack the Depression psychology, stimulate demand, and ultimately, it was hoped, achieve economic recovery.[2]

At the same time, Roosevelt gave his support to a social security programme[3] which gave birth The Social Security Act on August 14, 1935. This act, aimed to alleviate the plight of the American poor namely old people and unemployed people.

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[1]- James A., Henretta et al , Op.cit.,p.804.
[2]-Robert L., Rabin, Op. cit.,p. 1250.
[3]- France Pekins, the first woman cabinet member,had accepted the office of Labour Secretary only with Roosevelt's pledge that he would support a social security programme.For several years she and a group of New Dealers sought to win convert in the cabinet, in the Congress and throughout the country to their view that social insurance would not only aid the unemployed but also help prevent future depression.Frank,Freidel,Op.cit.,p.191.

In this respect, the act established a cooperative federal-state system to provide old-age insurance and unemployment compensation. For the first, it provided two types of assistance; those who were destitute could receive federal aid up to $51 per month, those who had works could receive retirement annuities at age 65 financed by contributions i.e. by taxes levied on the employers and by deductions from the wages of the employed .[1] In fact, employees and employers contributions would finance not only the retirement system but also the unemployment insurance.

On one hand, Social Security seemed a fairly radical piece of reform legislation, since the government committed itself to provide help for the elderly[2]. In this sense conservatives argued that the Social Security Act was inconsistent with the ethics of individualism; moreover, it placed the United States on the road to socialism. However, it was a fairly conservative programme, since workers and their employers, and not the government, were financing this system. On the other hand, The legislation was profoundly disappointing to reformers for the initial Social Security Act did not include provisions for farm workers, domestic workers, employees of the restaurant and service industries, or health insurance and its budget came from a regressive tax scheme that placed a disproportionate tax burden on the poor.

Despite these criticisms, the Social Security Act introduced a new era in American history for the Act was not only a major political victory for Roosevelt[3], but also a milestone in American history because it committed the government to a social welfare role by providing help for elderly, disabled, dependent, and unemployed Americans. By doing so, the act greatly expanded the public's sense of entitlement and the support people expected government to give to all citizens.

Finally, another significant component of the Second New Deal was the National Labour Relations Act of July5, 1935, known as the Wagner Act after Senator Robert

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[1]- Frank,Freidel,Op.cit.,p.191.
[2]-For further reading on the social security see appendix 3on p.110.
[3]- “We put those payroll contributions there,” Roosevelt said, “so as to give the contributors the legal ,moral and political right to collect their pensions and their unemployment benefits . With those taxes in there, no damn politician can even scrap my social security programme” Hugh, Brogan,Op.cit.,p.541.

Wagner of New York, who introduced the bill to enforce and protect labour unions[1] (section7 of the NIRA) even before the Supreme Court declared the NRA unconstitutional. This law came in part as a response to the rising numbers of strikes which forced the federal government to step into labour relations and to forge a compromise between management and labour. Thus, the law guaranteed industrial workers the right to unionise and the right to bargain collectively with management, and attempted to prevent employers' use of intimidation and coercion in breaking up unions[2].

In addition, the Act set up the National Labour Relations Board of five members to enforce the previous laws and supervise representation election. The results of this legislation were significant. While union members were confined to a few industries such as construction, railroads, and local truck delivery and limited to skilled workers, after the passage of the Wagner Act, they became present in almost all the American industries including all workers, regardless of their skill level. Accordingly, union membership soared from three million in 1932 to nine million in 1942[3] marking the labour historic victories.

In additions to the previous measures President Roosevelt and the Congress passed The Wealth Tax Act which increased taxes on the wealthy and created new and larger taxes on excess business profits, inheritances, large gifts, and profits from the sale of property. The act also put new restrictions on trusts and holding companies. At this point some critics argue that Roosevelt was hostile to the business and wealthy class arguing that both the Wagner Act and the raising taxes created an uncertain climate for investment. [4]

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[1]-For further reading on the National Labour Relations Act see appendix 4on p.112.

[2]- One of the main such legal tactics were the yellow-dog contract, a hiring agreement in which a worker pledged never to join a union, and easily obtained court injunctions, making unions responsible for a whole range of nebulous damages. Felix, Frankfurter and Nathan, Greene, The Labor Injunction, New York: Macmillan,1930,pp. 2382-84

[3] James A., Henretta et al , Op.cit., p.812.

[4]- In this sense an economist argue that the New Deal's policies mainly raising taxes and the Wagner Act, "left little doubt that the president and his administration intended to push through Congress everything they could to extract wealth from the high-income earners responsible for making the bulk of the nation's decisions about private investment." Robert Higgs, Regime Uncertainty: Why the Great Depression Lasted So Long and Why Prosperity Resumed After the War in The Independent Review, Volume I, Number 4:Spring 1997, p. 573.

Besides, other critics viewed the rising numbers of strikes and the new labour's power as a threat to the property right of American people.[1]

As the New Deal was first and foremost an economic rehabilitation programme, throughout all the period, its principal objective was economic recovery. Yet, its social impact was not limited to labour and business for the New Deal opened some opportunities to minorities in public life.

Hence, The so-called "Indian New Deal"(meaning Indian Reorganization Act) was the only bright spot in the administration's treatment of minorities. When Roosevelt became president in 1933, he appointed a leading reformer, John Collier, as commissioner of Indian affairs. Collier made it also certain that the New Deal's agencies hired Native Americans. In addition he persuaded Congress to create the Indian Emergency Conservation Program (IECP), a duplicate of the CCC project which employed more than 85,000 Indians.

More important, being an opponent of the government allotment programme, the Dawes Severalty Act of 1887 which partitioned and distributed tribal lands, Collier persuaded Congress to pass the Indian Reorganization Act In 1934. The latter made an end to the allotment programme, provided funds for tribes to purchase new land; offered government recognition of tribal constitutions; and repealed prohibitions on Native American languages and customs. Collier's efforts culminated when, in same year, federal grants were provided to local school districts, hospitals, and social welfare agencies to assist Native Americans.

During the Depression years, Mexican-American communities were demoralised by both economic conditions and the deportations of the Hoover years. Still, the New Deal offered Mexican Americans some help. The Farm Security Administration established camps for migrant farm workers in California, and the CCC and WPA hired

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[1]- A historian describes the rising fear of businessmen as follows: "Property-minded citizens were scared by the seizure of factories, incensed when strikers interfered with the mails, vexed by the intimidation of nonunionists, and alarmed by flying squadrons of workers who marched, or threatened to march, from city to city." William E., Leuchtenburg, Franklin D. Roosevelt and the New Deal, 1932-1940 ,New York: Harper and Row, 1963, p. 242.

unemployed Mexican Americans on relief jobs. Many, however, did not qualify for relief assistance because they did not meet residency requirements as migrant workers. Nonetheless the Mexican-American nationalism rose during Roosevelt presidency. In fact this minority supported and benefited from the New Deal's support to the right of bargaining. Hence, many Mexican-American joined the Committee of Industrial Organization[1] which represented for them an important step for becoming Americans.

Another minority group was African-Americans who were hard hit by the Depression. Although the social programs of the New Deal helped many of them, discrimination persisted. Although, the first lady Eleanor Roosevelt openly supported African-American causes, the president did not. More important for black leaders, the president failed to support an anti-lynching bill, for he feared that conservative southern Democrats, who had seniority in Congress and controlled many committee chairmanships, would block his bills if he tried to fight them on the race question.

Therefore, the CCC camps were segregated, the administration's agricultural policies had the effect of driving black farmers (often tenants or sharecroppers) out of the land, and relief payments for blacks were significantly lower than for whites in the South. Furthermore, the Social Security Act excluded those job categories that blacks traditionally had. Yet, the New Deal did record a few gains in civil rights for African-Americans were employed in New Deal agencies and more were appointed to jobs with the federal government than ever before.[2] Indeed most blacks appointed to New Deal posts served in token positions as advisors on black affairs. Nevertheless, through these appointments blacks achieved a new visibility in the US government.

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[1]- In late 1935, with the passage of the Wagner Act, a group of union leaders including John L. Lewis of the United Mine Workers, David Dubinsky of the Amalgamated Clothing Workers, and Sidney Hillman of the International Ladies' Garment Workers formed the Committee of Industrial Organization (CIO) to organize unskilled workers in America's mass production industries by the end of 1937, it had more members than the American Federation of Labour (AFL) .After jurisdictional disputes the AFL Expelled the CAO unions ,which then formed a permanent structure after 1938 called the Congress of Industrial Organisation . George B., Tindal and David E., Shi, Op.cit.,p.728.

[2]- For example, Roosevelt named Mary McLeod Bethune, a black educator, to the advisory committee of the National Youth Administration and thanks to her efforts, blacks received a fair share of this administration's funds and blacks in northern cities benefited from the WPA's work relief programmes. James A., Henretta et al , Op.cit., p.810.

The Second New Deal's legislations led to a split between the President and business. Thus, with big business turning against him, the Roosevelt and his administration had to look for support to run the 1936 election .Therefore , for the campaign, he built what was called the "Roosevelt Coalition"; a political bloc that remade modern politics. In fact while Republicans were still relying on their traditional base of political support (big business, big farmers, and conservatives), Democrats while holding the support of traditional Democrats North and South, broadened their constituency by appealing to small farmers in the urban political bosses, ethnic blue collar workers, Jews, intellectuals, and northern African Americans. Unions, for instance, were the heaviest Democratic campaign contributors by providing $1million and urging their members to support the Democratic Party and the New Deal in local and national election. For their part, the republican nominated the progressive governor of Kansas, Alfred M. Landon whose platform promised to do more than what the New Deal was undertaking but more efficiently, constitutionally and without running a deficit .

Yet, Roosevelt popularity had accustomed Americans to look to him for ideas, leadership and help .In addition, though it did not end the Depression, the New Deal policies had brought six million jobs[1] and set the foundations for a brighter future. Accordingly, President Roosevelt was overwhelmingly re-elected in the election of 1936. In the absence of the threat of a third party,[2] He carried every state but Maine and Vermont, easily defeating the Republican candidate by 27,7 million to 16,7.[3]In addition the Democrats would also dominate the Republican in the Congress in both the House and the Senate.

The 1936 election was not only the biggest landslide in US history but it also marked the most dramatic voter shifts .In fact ,until the New Deal, blacks had shown

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1- Hugh, Brogan,Op.cit.,p.544.

2- The assassination oh Huey Long in September 1935 had deflated the threat of a serious third party challenge, the candidate of the combined Long-Townsend-Coughlin, Congressman William Lemke of North Dakota, garnered fewer than 900,000 votes James A., Henretta et al , Op.cit.,p. 805.

3-Ibid.

their traditional loyalty to the party of Abraham Lincoln by voting overwhelmingly Republican. By the end of Roosevelt's first administration, however, Blacks turned to Roosevelt because his spending programmes gave them a measure of relief from the Depression. Accordingly, in 1936, some 71 percent of northern black voters supported Roosevelt and remained Democrats ever since.[1]

When he began his second term Roosevelt was aware that the Depression was still far from the end as he put it I his inaugural address "I see one- third of the nation ill-housed, ill-clad, ill-nourished"[2]; nevertheless, he was confident that the election results gave him a strong mandate from the American people to continue making sweeping changes. However, he quickly ran into problems with his plan to reorganise the Supreme Court[3] and faced a serious downturn in the economy in the late summer of 1937.Thus, dealing with these issues slowed the momentum of the administration's legislative agenda. Moreover, with war clouds gathering over Europe and the Japanese threat in the Pacific, the president was increasingly forced to turn his attention to foreign policy.

Meanwhile, although it did not reach full recovery, the economy had steadily improved from 1933 to the first half of 1937.During this period, the gross national product grew at a yearly rate of 10 percent ,industrial output reached its 1929 level and unemployment declined from 25 percent to 14 percent .[4]In the late summer of 1937, however, the country entered a deep recession that lasted almost a year.

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[1]- James A., Henretta et al , Op.cit., p.811.

[2]- Hugh, Brogan,Op.cit.,p. 541.

[3]- The Supreme Court had already invalidated two major pieces of New Deal legislation, the AAA and the NIRA, and other laws were under legal challenge. In all the conservative judges shut down eleven New Deal measures Roosevelt went on the offensive against the court. Reviving An old proposal that would allow the president to appoint an additional justice for each justice over the age of 70 ,Roosevelt wanted to "pack" the Supreme Court with judges who would be sympathetic to New Deal measures . It was the greatest misjudgment of his career.Even when one of the old judges retired and Roosevelt appointed Hugo Black, a new dealer ,FDR remained committed to the bill.Allarmed by the measure's threat to the system and constitutional checks and balances ,the Senate beat it back.It was Roosevelt's first loss in Congress in five years and it opened a small floodgate of other defeats. Kenneth.C, Davis , Op.cit.,p. 284.

[4]- James A., Henretta et al , Op.cit., p.806.

In fact reassured by good economic news in 1936, Roosevelt refused to follow the advice of his economic aides who adhered to Keynesian economics[1] and decided to cut government spending. Thus, in 1937, the president attempted to balance the federal budged by cutting the budget of New Deal programmes. For example, the WPA's funds were reduced by half. In addition, Roosevelt's virulent attacks on those whom he called "economic royalists" also undermined business confidence which in return lowered private investment. Such policies, however, had a disastrous effect on the American economy as well as on the president's political standing. Accordingly, the stock market promptly collapsed, industrial output increased and unemployment rose.

As a response, Roosevelt reversed his policies and called on Congress to pass a massive public works programme. In this respect, The Emergency Relief Appropriation Act of June 1938, was created to provide more jobs through the WPA and made more money for direct relief and government loans available. At the same time, the Federal Reserve Board, who had tightened credit to avoid inflation, adopted an easier credit policy to stimulate the economy.

Politically, a conservative alliance of southern Democrats and northern Republicans in Congress blocked all efforts to expand the New Deal. Hence, when the president called Congress into special session in the fall of 1937 to enact a broad range of legislation, including the reorganization of the executive branch, the coalition prevented the passage of all the bills. Under these circumstances, the two major accomplishments of the president's second term during this period were the Second Agricultural Adjustment Act of February 1938 which provided for the storage of surplus crops in government warehouses and made loans to farmers in years of overproduction to compensate for lower market price, and the Fair Labour Standards

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[1]- John Maynard Keynes (1883-1946) was a British economist who rejected classical economics and traditional theories of the free market.In1936, he published *The General Theory of Employment, Interest and Money* in which he claimed that there was a direct correlation between government spending and the welfare of the private sector economy. In addition, he advocated vast government spending--even deficit spending--in times of recession. Then, when the economy had recovered, Keynes argued, the government should reduce spending. Today, many Western nations accept the principles of Keynesian economics.www.bized.com.uk/virtual/economy/library/economists/keynesth.htm.

Act, also known as the Wages and Hours Act of June 1938 which dealt with the minimum wage and maximum hour (40 hours per week) issue and required payments for overtime work and labour by children under the age of 16.

Nevertheless, Roosevelt's popularity was seriously eroded by the 1937 recession, the Court battle and the continuous aggressiveness of the CAO strikes that many people qualified as a violation of property rights. Thus in an attempt to eliminate his opponents in Congress, Roosevelt campaigned against five senators of his own party in the congressional elections of 1938. Nevertheless, all won re-election. Consequently, although the Democrats retained their control of Congress in 1938, the Republicans capitalized on Roosevelt's recession and intervention in the primaries to regain seats in the House and the Senate. In the wake of the elections, Roosevelt did not offer any new domestic programmes in his State of the Union address of January 1939, but focused instead on the threat that aggressor nations posed to international peace. Thus the New Deal came to its limits by 1938.

Finally, when assessing the New Deal's achievements, almost all economic historians argue that although the government's welfare and public works policies did help many of the most needy people and brought back the economy from the bottom of 1933 ,the New Deal did not bring full return of prosperity for economic indicators did not reach their pre- depression levels until 1940-1941 .[1]The Great Depression, in fact, ended with the advent of the Second World War when government spending on the war caused or at least accelerated recovery from this down turn .

1- In assessing the effectiveness of the New Deal economists argue that the two most important indicators of the economy's macroeconomic health, real GNP per capita and the unemployment rate, did not return to their 1929 levels until at least 1939 in the case of GNP and at least 1941 in the case of unemployment. The GNP date reflects "back to 1929" levels and not "back to where trend would have been in 1939." Back to trend would have taken several years more, depending on the data one uses. Unemployment as conventionally measured remained above 14 percent through 1939. Even if one excludes those in government make-work programs from the unemployment rate, it remains above its 1929 figure until the early 1940s. Jonathan, Hughes; Louis P., Cain, American Economic History, 7th edition. Boston: Pearson/Addison Wesley, 2007, p. 481.

CONCLUSION

One major point that emerges from this research is that although it accelerated the downturn by weakening the financial institutions the stock market crash of 1929 was not the sole cause of the Great Depression. Indeed, the latter was caused by underlying weaknesses and imbalances within the U.S. economy that had been obscured by the boom psychology and speculative excess of the 1920s.

The *laissez faire* economic policies of the decade had altered the structure of American industry and agriculture. In fact, industrialization had shifted the nature of the economy away from agriculture, and farmers remained out of the Coolidge prosperity years. Besides, the new technologies of industry required fewer workers and allowed wages to remain relatively low despite large increases in productivity which in return contributed to growing disparity of income in America.

The Great Crash, then, exposed these weaknesses, and the collapse of the financial system aggravated them which in turn plunged the nation into the longest and deepest sustained downturn ever experienced by the economy of the United States. The complexity of this depression lays in the fact that it involved all the economic sectors; it was at the same time financial ,industrial and agricultural crisis.

The most devastating impact of the Great Depression was human suffering. Unemployment was of such proportion that in a short period of time standards of living dropped precipitously. Millions of people experienced poverty, hunger and homelessness.

Prior to the Great Depression, and especially under the Republican leadership government did not interfere in times of economic downturn. Yet, the 1929 crisis deepened and the expected recovery did not occur which inspired some fundamental changes in the government's reaction toward the crisis. In fact, President Hoover, who was viewed as a free market practitioner, pursued interventionist policies to address the downturn .these interventions were clearly defined in the enactment of the Smoot-Hawley Act the establishment of the Federal Farm Board. Yet his most significant proposal came in the establishment of a Reconstruction Finance Corporation which provided loans to businesses and banks and remained a key agency throughout all the thirties.

Nevertheless, despite the measures undertaken by President Hoover, the Great Depression exposed the inability of the Republican administration to cope with the downturn and brought the Democrats to the White House. This shift marked the beginning of an era of political innovation, much of it expressed in the reforms enacted by President Roosevelt's New Deal and his administration's attempts to cope with the problems of poverty, unemployment, and the disintegration of the American economy.

While FDR's New Deal efforts have helped to keep the Great Depression from becoming even worse than it was, only the Second World War finally succeeded to revive the economy. War-related exports, as well as America's own preparation with munitions and ammunition, fired up the factories again and effectively ended the Great Depression, almost twelve years after it began in 1929.

The response to the Great Depression transformed the American economic landscape. While it altered the relationship between government and big business, the New Deal gave way to the rise of labour unions by protecting collective bargaining and transformed the farm economy by introducing federal price supports. It strengthened the federal presence in American life, spawning such innovations as national old-age pensions, unemployment compensation, insured bank depositions, the minimum wage, and stock market regulations.

In the political sphere it produced a major political realignment. The shift of African-American support to the Democratic Party, in particular, demonstrates how President Roosevelt was transforming American politics by creating a new coalition committed to interventionist government. The Depression greatest legacy, however, was a profound sense of insecurity that led to a shift in government philosophy. As a result of the New Deal, Americans came to believe that the federal government has a responsibility to ensure the stability of the nation's economy and the welfare of its citizens.

APPENDIX 1

1931 Hoover on Government in Business

I am firmly opposed to the government entering into any business the major purpose of which is competition with our citizens .There are national emergencies which require that the government should temporarily enter the field of business, but they must be emergency actions and in matters where the cost of the project is secondary to much higher considerations. There are many localities where the Federal Government is justified in the construction of great dams and reservoirs, where navigation, flood control, reclamation or stream regulation are of dominant importance, and where they are beyond the capacity or purpose of private or local government capital to construct. In these cases power is often a by-product and should be disposed of by contract or lease. But for the Federal Government deliberately … to build up and expand such an occasion to the major purpose of a power and manufacturing business is to break down the initiative and enterprise of the American people; it is destruction of equality of opportunity of our people; it is the negation of the ideals upon which our civilization has been based.

This bill raises one of the important issues confronting our people. That is squarely the issue of Federal Government ownership and operation of power and manufacturing business not as minor by-product but as major purpose. Involved in this question is the agitation against the conduct of that industry lies in regulation and not by the Federal Government entering upon the business itself. I have recommended to the congress on various occasions that action should be taken to establish Federal regulation of interstate power in cooperation with state authorities. This bill would launch the Federal Government upon a basis of competition instead of by the proper Government function of regulation for the protection of all the people. I hesitate to contemplate the future of our institution, 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. That is not liberalism, it I degeneration……

<u>Source:</u> Monroe, Heath; Clarence F., McIntoch, op.cit., p43.

APPENDIX 2

1933 F.D .Roosevelt's First Inaugural Address

This is a day of national consecration, I am certain that my fellow-Americans expect that on my induction into the present situation of our nation impels

This is pre-eminently the time to speak the truth, the whole truth frankly and boldly.

Nor need we shrink from honesty facing condition in our country today. 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, un reasoning , unjustified terror which paralyzes needed efforts to convert retreat into advance .

In every dark hour of our national life a leadership of frankness and vigour 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 spirit on my part and on yours we face our common difficulties. They concern, thank God, only material thing. 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 saving 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

Primarily, this is because the rulers of the exchange of mankind's goods have failed through their own stubbornness and their own incompetence, have admitted their failure and abdicated…..

They have no vision, and when there is no vision the people perish …….

The measure of the restoration lies in the extent to which we apply social values more noble than mere monetary profit.

Happiness lies not in the mere possession of money; it lies in the joy of achievement, in the thrill of creative effort.

The joy and moral stimulation of work no longer must be forgotten in the mad chase of evanescent profits.

These dark days will be worth all they cost us if they teach us that our true destiny is not to be minister unto but to minister to ourselves and to our fellow-men…..

Restoration calls, however, not for changes in ethics alone. This nation asks for action, and action now.

Our greatest primary task is to put people to work. This is no unsolvable problem if we face it wisely and courageously.

It can be accomplished in part by direct recruiting by the government itself, treating the task as we would treat the emergency of a war, but at the same time, through this employment, accomplishing greatly needed projects to stimulate and reorganize the use of our natural resources.

Hand in hand with this, we must frankly recognize the overbalance of population in our industrial centres and, by engaging on a national scale in the redistribution; endeavour to provide a better use of the land for those best fitted for the land.

The task can be helped by definite efforts to raise the values of agricultural products and with this the power to purchase the output of our cities.

It can be helped by preventing realistically the tragedy of the growing loss, through foreclosure, of our small homes and our farms

It can be helped by insistence that the Federal, state and local government act forthwith on the demand that their cost be drastically reduced.

It can be helped by the unifying of relief activities which today are often scattered, uneconomical and unequal. It can be helped by national planning for and supervision of all forms of transportation and of communications and other utilities which have a definitely public character.

There are many ways in which it can be helped, but it can never be helped merely by talking about it. We must act, and act quickly.

Finally, in our progress toward a resumption of work we require two safeguards against a return of the evils of the old order; there must be a strict supervision of all banking and credits and investments; there must be an end to speculation with other people's money, and there must be provision for an adequate but sound currency.

These are lines of attack. I shall presently urge upon a new Congress in special session detailed measures for their fulfilment, and I shall seek the immediate assistance of the several states.

Through this program of action we address ourselves to putting our own national house in order and making income balance outgo.

Our international trade relations, though vastly importance, are, in point of time and necessity, secondary to the establishment of sound national economy.

I favour as practical policy the putting of first things first. I shall spare no effort to restore world trade by international economic readjustment, but the emergency at home cannot wait on that accomplishment.

The basic thought that guides the specific means of national recovery is not narrowly nationalistic …..

In the field of world policy I would dedicate this nation to he policy of the good neighbour- the neighbour who resolutely respects himself and, because he does so, respects the rights of others- the neighbour who respect his obligations and respects the sanctity of his agreements in and with a world of neighbour.

If I read the temper of our people correctly, we now realize as we have never before, our interdependence on each other; that we cannot merely take, but we must give as well; that if we are to go forward we must move as a trained and loyal army willing to sacrifice for the good of a common discipline, because, without such discipline, no progress is made, no leadership becomes effective.

We are, I know, ready and willing to submit our lives and property to such discipline because it makes possible a leadership which aims at a larger good.

This I propose to offer, pledging that the larger purposes will blind upon us all as sacred obligation with a unity of duty hitherto evoked only in time of armed strife.

With this pledge taken, I assume unhesitatingly the leadership of this great army of our people, dedicated to a disciplined attack upon our common problems.

Action in this image and to this end is feasible under the form of government which we have inherited from our ancestors.

Our constitution is so simple and practical that it is possible always to meet extraordinary needs by changes in emphasis and arrangement without loss of essential form.

That is why our constitutional system has proved itself the most superbly enduring political mechanism the modern world has produced. It has met every stress of vast expansion of territory, of foreign wars, of bitter internal strife, of world relation

It is to be hoped that the normal balance of executive and legislative authority may be wholly adequate to meet the unprecedented demand and need for undelayed action may call for temporary departure from that normal balance of public procedure.

I am prepared under my constitutional duty to recommend the measures that a stricken nation in the midst of a stricken world may required.

Theses measures, or such other measures as the Congress may built out of its experience and wisdom, I shall seek within my constitutional authority, to bring to speedy adoption.

But in the event that the Congress shall fail to take one of these two courses, and in the event that the national emergency is still critical, I shall not evade the clear course of duty that will then confront me.

I shall ask the Congress for the one remaining instrument to meet the crisis – broad executive power to wage a war against the emergency as great as the power that would be given me if we were in fact invaded by foreign foe.

For the trust reposed in me I will return the courage and the devotion that befit the time. I can do no less

We face the arduous days that lie before us in the warm courage of national unity; with the clear consciousness of seeking old and precious moral values; with the clean satisfaction that comes from the stern performance of duty by old and young alike.

We aim at the assurance of a rounded and permanent national life.

We do not distrust the future of essential democracy. 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.

In this dedication of a nation we humbly ask the blessing of God. May He protect each and every one of us! May guide me in the days to come!

Source: Monroe, Heath; Clarence F., McIntoch, op.cit., pp.44-45.

APPENDIX 3
1935
F.D. Roosevelt on Social Security

IT IS OVERWHELMINGLY IMPORTANT to avoid any danger of permanently discrediting the sound and necessary policy of federal legislation for economic security by attempting to apply it on too ambitious a scale before actual experience has provided guidance for permanently safe direction of such effort. The place of such a fundamental in our future civilization is too precious to be jeopardized now by extravagant action. It is a sound idea- a sound ideal. Most of the other advanced countries of the world have already adopted it and their experience affords the knowledge that social insurance can be made a sound and workable project ……

At this time, I recommend the following types of legislation looking to economic security:

1. Unemployment compensation.
2. Old –age benefits, including compulsory and voluntary annuities.
3. Federal aid to dependent children through grants to states for the support of existing mothers' pension systems and for services for the protection and care of homeless, neglected, dependent, and crippled children.
4. Additional federal aid to state and local public –health agencies and the strengthening of federal Public Health Service. I am not at this time recommending the adoption of so-called "health insurance"…..

The establishment of sound means toward a greater future economic security of the American people is dictated by a prudent consideration of the hazards involved in our national life. No one can guarantee this country against the dangers of future depressions but we can reduce these dangers. We can eliminate many of the factors that cause economic depressions, and we can provide the means of mitigation their results. This plan for economic security is at once a measure of prevention and a method of alleviation.

We pay now for the dreadful consequence of economic insecurity- and dearly. This plan presents a more equitable and infinitely less expensive means of meeting these costs.

We cannot afford o neglect the pain duty before us ……

Source: Monroe, Heath; Clarence F., McIntoch, op.cit., p.46.

APPENDIX 4

The National Labour Relations Act, July 5, 1935

Section 1- (…)

The inequality of bargaining power between employees who do not possess full freedom of association or actual liberty of contract, and employees who are organized in the corporate or other forms of ownership association substantially burdens and affects the flow of commerce, and tends to aggravate recurrent business depressions, by depressing wage rates and the purchasing power of wage earners in industry and by preventing the stabilization of competitive wage rates and working conditions within and between industries.

Experience has proved that protection by law of the right of employees to organize and bargain collectively safeguards commerce from injury, impairment, or interruption, and promotes the flow of commerce by removing certain recognized sources of industrial strife and unrest, by encouraging practices fundamental to the friendly adjustment of industrial disputes arising out of differences as to wages, hours, or other working conditions, and by restoring equality of bargaining power between employers and employees.

It is herby declared to be the policy of the United States to eliminate the causes of certain substantial obstructions to the free flow of commerce and to mitigate and criminate theses obstruction when they have occurred by encouraging the practice and procedure of collective bargaining and by protecting the exercise by workers of full freedom of association, self-organization, and designation of representatives of their own choosing, for the purpose of negotiating the terms and conditions of their employment or other mutual aid or protection.(…)

Section 2 – (…)

2- The term "employer" includes any person acting in the interest of an employer, directly or indirectly, but shall not include the United States, or any state (…).

3- The term ""employee" (…) shall not include any individual employed as an agricultural labourer, or in the domestic service of any family or person at his home (…).

Section 3-

a) There is hereby created a Board, to know as the “national labour relations Board», which shall be composed of three members, who shall be appointed by the president, by and with the advice and consent of the senate. (…)

Section 6-

a) The Board shall have authority from time to time to make, amend, and rescind such rules and regulations as may be necessary to carry out the provisions of this Act.(...).

Section 7-

Employees shall have the right of self-organization, to form, join, or assist labour organizations, to bargain collectively through representatives of their own choosing, and to engage in concerted activities, for purpose of collective bargaining or other mutual aid or protection.

Section 8- It shall be an unfair labour practice for an employer-

1- To interfere with, restrain, or coerce employees in the exercise of the rights guaranteed in

section 7-

2- To dominate or interfere with the formation or administration of any labour organization or contribute financial or other support to it. (…)

3- By discrimination in regard to hire or tenure of employment or any term or condition of employment to encourage or discourage membership in any labour organization (…).

Section 9- representative designated or selected for the purposes of collective bargaining by the majority of the employees in unit appropriate for such purposes, shall be the executive bargaining in respect to rates of pay, wages, hours of employment, or other conditions of employment: Provided, that any individual employee or a group of employees shall have the right at any time to present grievances to their employer (…).

Section 10- the Board is empowered as hereinafter provided, to prevent any person from engaging in any unfair labour practice affecting commerce. This power shall be exclusive, and shall not be affected by any other means of adjustment or prevention that has been or may be established by agreement, code, law, or otherwise. (…)

c) (…) If upon all the testimony taken the Board shall be of the opinion that any person named in the complaint has engaged in or is engaging in any such unfair labour practice, then the board shall state its findings pf fact and shall issue and cause to be served on such person an order requiring such person to cease and desist from such unfair labour practice, and to take such affirmative action, including reinstatement of employees with or without back pay, as will effectuate the policies of this Act.(…)

i) Petitions filed under this Act shall be heard expeditiously and if possible within ten days after they have been docketed.

Section 11- For the purpose of all hearings and investigation. (…)

l) (…) Any member of the Board shall have power to issue subpoenas requiring the attendance an testimony of witnesses and the production of any evidence that relates to any matter under investigation or in question, before the Board, its member, agent , or agency conducting the hearing or investigation.(…)

Section 13 –

Nothing in this Act shall be construed so as to interfere with or impede or diminish in any way the right to strike. (…)

Source: Bertrand, Claude – jean, les Etats Unis, Histoire et Civilisation : témoignages et documents, Presse Universitaire de Nancy, 1983,pp 220-21-22 .

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