Facts Of The Great Depression Essay, Research Paper

To my amazement the Great Depression serves as a natural debating point that “justifies”

or “refutes” various economic policies. The Great Depression and the New Deal are

complex topics that are open to many interpretations. The Great Depression was the

worst economic slump ever in U.S. history, and one which spread to virtually all of the

industrialized world.

Seeing the order in which events actually occurred dispels many myths about the

Great Depression. One of the greatest of these myths is that government intervention was

responsible for its onset. Truly massive intervention began only under the presidency of

Franklin Roosevelt in 1933, who was sworn in after the worst had already hit. Although

his New Deal did not cure it, all the leading economic indicators improved during his

tenure.

To understand the Great Depression, it is important to know the theories of John

Maynard Keynes. Keynes is known as the “father of modern economics” because he was

the first to accurately describe some of the causes and cures for recessions and

depressions.

In a normal economy, Keynes said, there is a circular flow of money. My

spending becomes part of your earnings, and your spending becomes part of my earnings.

For various reasons, however, this circular flow can falter. People start hoarding money

when times become tough; but times become tougher when everyone starts hoarding

money. This breakdown results in a recession.

To get the circular flow of money started again, Keynes suggested that the central

bank, the Federal Reserve System, should expand the money supply. This would put

more money in people’s hands (through the multiplier effect), inspire consumer

confidence, and compel them to start spending again.

A depression, Keynes believed, is an especially severe recession in which people

hoard money no matter how much the central bank tries to expand the money supply. In

that case, he suggested that government should do what the people were not: start

spending money. He called this “priming the pump” of the economy. I think that most

economists believe that only massive U.S. defense spending in preparation for World

War II cured the Great Depression.

After the success of Keyne?s economic beliefs were proven, almost all free

governments around the world became Keynesian. These policies have dramatically

reduced the severity of recessions since then, and appear to have completely eliminated

the depression from those who follow such economic beliefs throughout the world.

Events of the 1920s

The Roaring Twenties were an era dominated by Republican presidents: Warren

Harding (1920-1923), Calvin Coolidge (1923-1929) and Herbert Hoover (1929-1933).

Under their conservative economic philosophy of laissez-faire (”leave it alone”), markets

were allowed to operate without government interference. Taxes and regulation were

slashed dramatically, monopolies were allowed to form, and inequality of wealth and

income reached record levels. The country was on the preferred gold standard, and the

Federal Reserve was not allowed to significantly change the money supply. Many try to

blame the worsening of the Depression on Hoover, for supposedly betraying the

laissez-faire beliefs.

As this time line will show, almost all of Hoover’s government action occurred

during his last year in office, long after the worst of the Depression had hit. In fact, he

was voted out of office for doing “too little too late.” The only notable exception to his

earlier idleness was the Smoot-Hawley tariff of 1930.

But much more important, the economy was clearly turning downward even

before Hoover took office in 1929. Entire sectors of the economy were depressed

throughout the decade, such as: agriculture, energy and mining. Even the two industries

with the most spectacular growth – construction and automobile manufacturing – were

contracting in the year before the stock market crash of 1929. About 600 banks a year

were failing. Half the American people lived at or below the minimum subsistence level.

By the time the stock market crashed, there was a excessive amount of goods on the

market, and inventories were three times their normal size. The fact that all this occurred

even before the first act of government intervention is a major refutation of laissez-faire

ideology.

TIMELINE OF GENERAL EVENTS

1920s

?During World War I, federal spending grows three times larger than tax collections.

When the government cuts back spending to balance the budget in 1920, a severe

recession results. However, the war economy invested heavily in the manufacturing

sector, and the next decade will see an explosion of productivity… although only for

certain sectors of the economy.

?An average of 600 banks fail each year.

?Agricultural, energy and coal mining sectors are continually depressed. Textiles, shoes,

shipbuilding and railroads continually decline.

?The value of farmland falls 30 to 40 percent between 1920 and 1929.

?Organized labor declines throughout the decade. The United Mine Workers Union will

see its membership fall from 500,000 in 1920 to 75,000 in 1928. The American

Federation of Labor would fall from 5.1 million in 1920 to 3.4 million in 1929.

?”Structural unemployment” enters the nation’s vocabulary; as many as 200,000 workers a

year are replaced by automatic or semi-automatic machinery.

?Over the decade, about 1,200 mergers will swallow up more than 6,000 previously

independent companies; by 1929, only 200 corporations will control over half of all

American industry.

?By the end of the decade, the bottom 80 percent of all income-earners will be removed

from the tax rolls completely. Taxes on the rich will fall throughout the decade.

?By 1929, the richest 1 percent will own 40 percent of the nation’s wealth. The bottom 93

percent will have experienced a 4 percent drop in real disposable per-capita income

between 1923 and 1929.

?The middle class comprises only 15 to 20 percent of all Americans.

?Individual worker productivity rises an astonishing 43 percent from 1919 to 1929. But

the rewards are being funneled to the top: the number of people reporting half-million

dollar incomes grows from 156 to 1,489 between 1920 and 1929, a phenomenal rise

compared to other decades. But it is still less than 1 percent of all income-earners.

1922

?The conservative Supreme Court strikes down federal child labor legislation.

1923

?President Warren Harding dies in office; his administration seemed to me, to be one of

the most corrupt in American history. Calvin Coolidge, who is squeaky clean by

comparison, becomes president. Coolidge is no less committed to laissez-faire and a

non-interventionist government. He announces to the American people: “The business of

America is business.”

?Supreme Court nullifies minimum wage for women in District of Columbia.

1924

?The Ku Klux Klan reaches the height of its influence in America: by the end of the year

it will claim 9 million members. It will decline drastically in 1925, however, after

financial and moral scandals rock its leadership.

?The stock market begins its spectacular rise. Bears little relation to the rest of the

economy.

1925

?The top tax rate is lowered to 25 percent – the lowest top rate in the eight decades since

World War I.

?Supreme Court rules that trade organizations do not violate anti-trust laws as long as

some competition survives.

1928

?The construction boom is over.

?Farmers’ share of the national income has dropped from 15 to 9 percent since 1920.

?Between May 1928 and September 1929, the average prices of stocks will rise 40

percent. Trading will mushroom from 2-3 million shares per day to over 5 million. The

boom is largely artificial.

1929

?Herbert Hoover becomes President. Hoover is not as committed to laissez-faire ideology

as Coolidge.

?More than half of all Americans are living below a minimum subsistence level.

?Annual per-capita income is $750; for farm people, it is only $273.

?Backlog of business inventories grows three times larger than the year before. Public

consumption seems to be markedly down.

?Freight carloads and manufacturing fall.

?Automobile sales decline by a third in the nine months before the crash.

?Construction down $2 billion since 1926.

?Recession begins in August, two months before the stock market crash. During this two

month period, production will decline at an annual rate of 20 percent, wholesale prices at

7.5 percent, and personal income at 5 percent.

?Stock market crash begins October 24. Investors call October 29 “Black Tuesday.”

Losses for the month will total $16 billion, an astronomical sum in those days.

?Congress passes Agricultural Marketing Act to support farmers until they can get back

on their feet.

1930

?By February, the Federal Reserve has cut the prime interest rate from 6 to 4 percent.

Expands the money supply with a major purchase of U.S. securities. However, for the

next year and a half, the Fed will add very little money to the shrinking economy. (At no

time does it actually pull money out of the system.) Treasury Secretary Andrew Mellon

announces that the Fed will stand by as the market works itself out: “Liquidate labor,

liquidate stocks, liquidate real estate? values will be adjusted, and enterprising people

will pick up the wreck from less-competent people.”

?The Smoot-Hawley Tariff passes on June 17.

?The first bank panic occurs later this year; a public run on banks results in a wave of

bankruptcies. Bank failures and deposit losses are responsible for the contracting money

supply.

?Supreme Court rules that the monopoly U.S. Steel does not violate anti-trust laws as

long as competition exists, no matter how negligible.

?Democrats gain in Congressional elections, but still do not have a majority.

?The GNP falls 9.4 percent from the year before. The unemployment rate climbs from 3.2

to 8.7 percent.

1931

?No major legislation is passed yet addressing the Depression.

?A second banking panic occurs in the spring.

?The GNP falls another 8.5 percent; unemployment rises to 15.9 percent.

1932

?This and the next year are the worst years of the Great Depression. For 1932, GNP falls

a record 13.4 percent; unemployment rises to 23.6 percent.

?Industrial stocks have lost 80 percent of their value since 1930.

?10,000 banks have failed since 1929, or 40 percent of the 1929 total.

?About $2 billion in deposits have been lost since 1929.

?Money supply has contracted 31 percent since 1929.

?GNP has also fallen 31 percent since 1929.

?Over