The Depression Essay, Research Paper

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The economic depression that beset the United States and other countries in the

1930s was unique in its magnitude and its consequences. At the depth of the depression, in

1933, one American worker in every four was out of a job. In other countries

unemployment ranged between 15 percent and 25 percent of the labor force. The great

industrial slump continued throughout the 1930s, shaking the foundations of Western

capitalism and the society based upon it.

The “roaring twenties” was an era when our country prospered tremendously. The

nation’s total realized income rose from $74.3 billion in 1923 to $89 billion in 1929.

However, the rewards of the “Coolidge Prosperity” of the 1920’s were not shared evenly

among all Americans. According to a study done by the Brookings Institute, in 1929 the

top 0.1% of Americans had a combined income equal to the bottom 42%. That same top

0.1% of Americans in 1929 controlled 34% of all savings, while 80% of Americans had no

savings at all. Automotive industry mogul Henry Ford provides a striking example of the

unequal distribution of wealth between the rich and the middle-class. Henry Ford reported

a personal income of $14 million in the same year that the average personal income was

$750. By present day standards, where the average yearly income in the U.S. is around

$18,500, Mr. Ford would be earning over $345 million a year! This maldistribution of

income between the rich and the middle class grew throughout the 1920’s. While the

disposable income per capita rose 9% from 1920 to 1929, those with income within the

top 1% enjoyed a stupendous 75% increase in per capita disposable income.

A major reason for this large and growing gap between the rich and the

working-class people was the increased manufacturing output throughout this period.

From 1923-1929 the average output per worker increased 32% in manufacturing. During

that same period of time average wages for manufacturing jobs increased only 8%. Thus

wages increased at a rate one fourth as fast as productivity increased. As production costs

fell quickly, wages rose slowly, and prices remained constant, the bulk benefit of the

increased productivity went into corporate profits. In fact, from 1923-1929 corporate

profits rose 62% and dividends rose 65%.

The federal government also contributed to the growing gap between the rich and

middle-class. Calvin Coolidge’s administration (and the conservative-controlled

government) favored business, and as a result the wealthy who invested in these

businesses. An example of legislation to this purpose is the Revenue Act of 1926, signed

by President Coolidge on February 26, 1926, which reduced federal income and

inheritance taxes dramatically. Andrew Mellon, Coolidge’s Secretary of the Treasury, was

the main force behind these and other tax cuts throughout the 1920’s. In effect, he was

able to lower federal taxes such that a man with a million-dollar annual income had his

federal taxes reduced from $600,000 to $200,000. Even the Supreme Court played a role

in expanding the gap between the socioeconomic classes. In the 1923 case Adkins v.

Children’s Hospital, the Supreme Court ruled minimum-wage legislation unconstitutional.

The large and growing disparity of wealth between the well-to-do and the

middle-income citizens made the U.S. economy unstable. For an economy to function

properly, total demand must equal total supply. In an economy with such disparate

distribution of income it is not assured that demand will always equal supply. Essentially

what happened in the 1920’s was that there was an oversupply of goods. It was not that

the surplus products of industrialized society were not wanted, but rather that those whose

needs were not satiated could not afford more, whereas the wealthy were satiated by

spending only a small portion of their income. A 1932 article in Current History articulates

the problems of this maldistribution of wealth.

President Calvin Coolidge had said during the long prosperity of the 1920s that

“The business of America is business.” Despite the seeming business prosperity of the

1920s, however, there were serious economic weak spots, a chief one being a depression

in the agricultural sector. also depressed were such industries as coal mining, railroads,

and textiles. Throughout the 1920s, U. S. banks had failed–an average of 600 per year–as

had thousands of other business firms. By 1928 the construction boom was over. The

spectacular rise in prices on the stock market from 1924 to 1929 bore little relation to

actual economic conditions. In fact, the boom in the stock market and in real estate, along

with the expansion in credit (created, in part, by low-paid workers buying on credit) and

high profits for a few industries, concealed basic problems. Thus the U. S. stock market

crash that occurred in October 1929, with huge losses, was not the fundamental cause of

the Great Depression, although the crash sparked, and certainly marked the beginning of,

the most traumatic economic period of modern times.

The enormous amount of unsecured consumer debt created by this speculation left

the stock market essentially off-balance. Many investors, caught up in the race to make a

killing, invested their life savings, mortgaged their homes, and cashed in safer investments

such as treasury bonds and bank accounts. As the prices continued to rise, some economic

analysts began to warn of an impending correction, but they were largely ignored by the

leading pundits. Many banks, eager to increase their profits, began

speculating dangerously with their investments as well. Finally, in October 1929, the

buying craze began to dwindle, and was followed by an even wilder selling craze.

On Thursday, October 24, 1929, the bottom began to fall out. Prices dropped

precipitously as more and more investors tried to sell their holdings. By the end of the day,

the New York Stock Exchange had lost four billion dollars, and it took exchange clerks

until five o’clock am the next day to clear all the transactions. By the following Monday,

the realization of what had happened began to sink in, and a full-blown panic ensued.

Thousands of investors–many of them ordinary working people, not serious players–were

financially ruined. By the end of the year, stock values had dropped by fifteen billion

dollars.

Many of the banks which had speculated heavily with their deposits were wiped

out by the falling prices, and these bank failures sparked a run on the banking system.

Each failed bank factory business and investor contributed to the downward spiral that

would drag the world into the Great Depression.

By 1930, the slump was apparent, but few people expected it to continue; previous

financial panics and depressions had reversed in a year or two. The usual forces of

economic expansion had vanished, however. Technology had eliminated more industrial

jobs than it had created; the supply of goods continued to exceed demand; the world

market system was basically unsound. The high tariffs of the Smoot-Hawley Act (1930)

exacerbated the downturn. As business failures increased and unemployment soared–and

as people with dwindling incomes nonetheless had to pay their creditors–it was apparent

that the United States was in the grip of economic breakdown. Most European countries

were hit even harder, because they had not yet fully recovered from the ravages of World

War I.) The deepening depression essentially coincided with the term in office (1929-33)

of President Herbert Hoover. The stark statistics scarcely convey the distress of the

millions of people who lost jobs, savings, and homes. From 1930 to 1933 industrial stocks

lost 80% of their value. In the four years from 1929 to 1932 approximately 11,000 U. S.

banks failed (44% of the 1929 total), and about $2 billion in deposits evaporated. The

gross national product (GNP), which for years had grown at an average annual rate of

3.5%, declined at a rate of over 10% annually, on average, from 1929 to 1932.

Agricultural distress was intense: farm prices fell by 53% from 1929 to 1932. President

Hoover opposed government intervention to ease the mounting economic distress. His

one major action, creation (1932) of the Reconstruction Finance Corporation to lend

money to ailing corporations, was seen as inadequate. Hoover lost the 1932 election to

Franklin D. Roosevelt.

The depression brought a deflation not only of incomes but of hope. In his first

inaugural address (March 1933), President Franklin D. Roosevelt declared that “the only

thing we have to fear is fear itself.” But though his New Deal grappled with economic

problems throughout his first two terms, it had no consistent policy. At first Roosevelt

tried to stimulate the economy through the National Recovery Administration, charged

with establishing minimum wages and codes of fair competition in every industry. It was

based on the idea of spreading work and reducing unfair competitive practices by means of

cooperation in industry, so as to stabilize production and prevent the price slashing that

had begun after 1929. This approach was abandoned after the Supreme Court declared the

NRA unconstitutional in Schecter Poultry Corporation V. United States (1935).

Roosevelt’s second administration gave more emphasis to public works and other

government expenditures as a means of stimulating the economy, but it did not pursue this

approach vigorously enough to achieve full economic recovery. At the end of the

1930s, unemployment was estimated at 17.2%. Other innovations of the Roosevelt

administrations had long-lasting effects, both economically and politically. To aid people

who could find no work, the New Deal extended federal relief on a vast scale. The Civilian

Conservation Corps took young men off the streets and sent them out to plant forests and

drain swamps. The government refinanced about one-fifth of farm mortgages through the

Farm Credit Administration and about one-sixth of home mortgages through the Home

Owners Loan Corporation. The Works Progress Administration employed an average of

over 2 million people in occupations ranging from laborers to musicians and writers. The

Public Works Administration spent about $4 billion on the construction of highways and

public buildings in the years 1933-39. The depression years saw a burst of union

organizing, aided by the National Labor Relations Act of 1935. New industrial unions

came into existence through the efforts of organizers led by John L. Lewis, Walter

Reuther, Philip Murray, and others; in 1937 they won contracts in the steel and auto

industries. Total union membership rose from about 3 million in 1932 to over 10 million in

1941.

The expanded role of the federal government came to be accepted by most

Americans by the end of the 1930s. Even Republicans who had bitterly opposed the New

Deal shifted their stance. Wendell Wilkkie, the Republican presidential nominee in 1940,

declared that he could not oppose reforms such as the regulation of the securities markets

and the utility holding companies, the legal recognition of unions, or Social Security and

unemployment allowances. What bothered him and other opponents of the New Deal,

however, was the extension of the federal bureaucracy. The depression caused much

questioning of inherited economic and political ideas. Sen. Huey P. Long of Louisiana

found a national following for his “Share the Wealth” program. The socialist writer

Upton Sinclair was nearly elected governor of California in 1934 with a similar program

for redistributing the state’s wealth. Many writers and other intellectuals swung even

further left, concluding that capitalism was on its way out; they were drawn to the

Communist party by what they supposed to be the accomplishments of the USSR. In other

countries the depression had even more profound effects. As world trade fell off, countries

turned to nationalist economic policies that only exacerbated their difficulties. In politics

the depression strengthened the extremes of right and left, helping Adolf Hitler to power

in Germany and swelling left-wing movements in other European countries. The

depression was thus a time of massive insecurity among peoples and governments,

contributing to the tensions that produced World War II. Ironically, however, the massive

military expenditures for that war provided the economic stimulus that finally ended the

depression in the United States and elsewhere.

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