

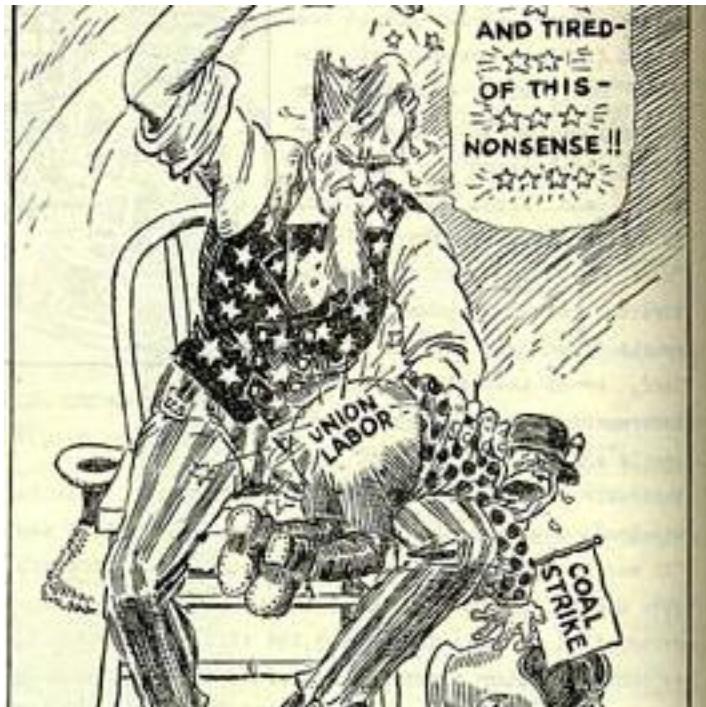
# Capitalism

## The American Experience

### 1907-1941

HTAWA Revision seminar

6 May 2023



# What is capitalism?

**Capitalism is an economic system in major resources and enterprises are privately owned and the main purpose of all economic processes is to generate profit.**

Capitalism is based on individuals investing money in financial and industrial projects **in order to make profit**.

In a capitalist economy, the private individuals or small groups who own the resources, control the businesses and employ the workers are the capitalists and because they are rich they also have **a lot of political powers**. Those who do not own the means of production, or have a lot of money must live by selling their labour to capitalists in return for a wage. These people are called **working class (or proletariat)** and individually they have little power.



“America is the Canaan of capitalism, it's promised land...”

Werner Sombart  
1906

# **Elective 7: Capitalism – the American experience (1907–1941)**

- the main causes of the rise of capitalism in the USA, including the expansion of the railways; post-Civil War reconstruction; immigrant labour; discovery of oil; and mass production
- the role and impact of significant individuals in the period, with particular reference to **Theodore Roosevelt, Woodrow Wilson, Calvin Coolidge, Herbert Hoover, F D Roosevelt, J D Rockefeller, Henry Ford**
- key ideas of: theories of capitalism, laissez-faire, consumerism, individualism (including ‘rugged individualism’), limited government, economic liberty, and the American Dream
- the impact of WWI, the 1920s, and WWII until 1941, on American capitalism; the growth of consumerism; and the shaping of American values, for example, film and fashion, prohibition and the ‘Jazz Age’
- the causes of the Great Depression, the consequences for different groups and the effectiveness of political responses, including the New Deal, and the impact on capitalism
- the impact of capitalism on different groups within American society and the aims and beliefs of different groups, for example, African Americans, urban workers, rural workers, immigrants, industrialists, and members of Indian Nations; and the consequences of divisions
- the significance of capitalism in this period, including a comparison with other key economic ideologies, in particular, communism

Look at your Syllabus and the core ‘themes’ of your course

- economic
- external forces/international relations
- Ideas:
  - theories of capitalism, laissez-faire, consumerism, individualism (including ‘rugged individualism’), limited government, economic liberty, and the American Dream
- leadership
- political
- social/cultural.



|   | Economic | external forces/international relations | leadership | political | social/cultural. |
|---|----------|---|------------|-----------|------------------|
| • The main causes of the rise of capitalism in the USA, including the expansion of the railways; post-Civil War reconstruction; immigrant labour; discovery of oil; and mass production |          |   |            |           |                  |
| • The impact of WWI, on American capitalism; the growth of consumerism; and the shaping of American values  |          |   |            |           |                  |
| • The impact of the 1920s, and WWII until 1941, on American capitalism; the growth of consumerism; and the shaping of American values   |          |   |            |           |                  |
| • The causes of the Great Depression, the consequences for different groups and the effectiveness of political responses, including the New Deal, and the impact on capitalism          |          |   |            |           |                  |
| • The impact of WWII until 1941, on American capitalism; the growth of consumerism; and the shaping of American values  |          |   |            |           |                  |
| • The impact of capitalism on different groups within American society and the aims and beliefs of different groups   |          |   |            |           |                  |

KEY WORDS | DATES | EVENTS | FACTS | PEOPLE | EVIDENCE

\*Create a separate table just for the ideas!

# Overview of period chronology

| Period   | When      | President   | Election dates |
|--|-----------|---|----------------|
| <b>2<sup>nd</sup> Industrial Revolution 'Gilded Age'</b> | 1870-1900 | William McKinley (1897-1901) R  |                |
| <b>Progressive Era</b>                                   | 1900-1914 | Theodore Roosevelt (1901-1909) R<br>William Taft (1909-1913) R                              |                |
| <b>WW1</b>   | 1914-1918 | Woodrow Wilson (1913-1921) D  |                |
| <b>'Roaring Twenties'</b>                                | 1919-1929 | Warren Harding (1921-1923) R<br>Cal Coolidge (1923-1929) R<br>Herbert Hoover (1929- 1932) R |                |
| <b>Great Depression</b>                                  | 1929-1939 | Herbert Hoover (1929- 1932) R<br>Franklin Delano Roosevelt (1933- 1945) D                   |                |
| <b>WW2 (till 1941)</b>                                   | 1939-1941 | Franklin Delano Roosevelt (1933- 1945) D  |                |

# Gilded Age 1877 - 1896

The Gilded Age was one of the most dynamic, contentious, and volatile periods in American history.

In [United States history](#), the **Gilded Age** was sandwiched between the [Reconstruction era](#) and the [Progressive Era](#).

It was a time of rapid economic growth, especially in the [Northern](#) and [Western](#) United States.

As American wages grew much higher than those in Europe, especially for skilled workers, and [industrialisation](#) demanded an ever-increasing unskilled labour force, the period saw an influx of millions of European immigrants.

America's industrial economy exploded, **generating unprecedented opportunities** for individuals to build great fortunes but also leaving **many farmers and workers struggling merely for survival**.

**Overall national wealth increased more than fivefold, a staggering increase, but one that was accompanied by what many saw as an equally staggering disparity between the rich and the poor.**

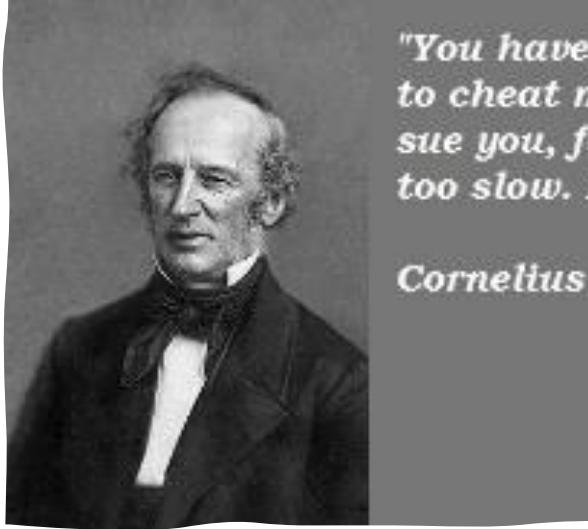
Therefore, the Gilded Age was also an era of **abject poverty** and inequality, as millions of immigrants—many from impoverished regions—poured into the United States, and the high **concentration of wealth** became more visible and contentious.

Industrial giants like **Andrew Carnegie and John Rockefeller** revolutionised business and ushered in the modern corporate economy, but also, ironically, sometimes destroyed **free-market economic competition** in the process.

Many people question the business strategies that allowed big industrialists (the '**Robber Barons'**) to build powerful monopolies—but those much-maligned **monopolies** brought desperately needed order to America's immature economic system.

During this period **big businesses** made huge fortunes causing social upheaval, however it can be argued that they used that wealth to pay for huge surge in philanthropy, building hundreds of libraries, schools, museums and other public facilities.

The Gilded Age was a dynamic age of incredible economic opportunity, just as it was a harsh era of incredible economic exploitation.



*"You have  
to cheat n  
sue you, fo  
too slow. I*

*Cornelius*

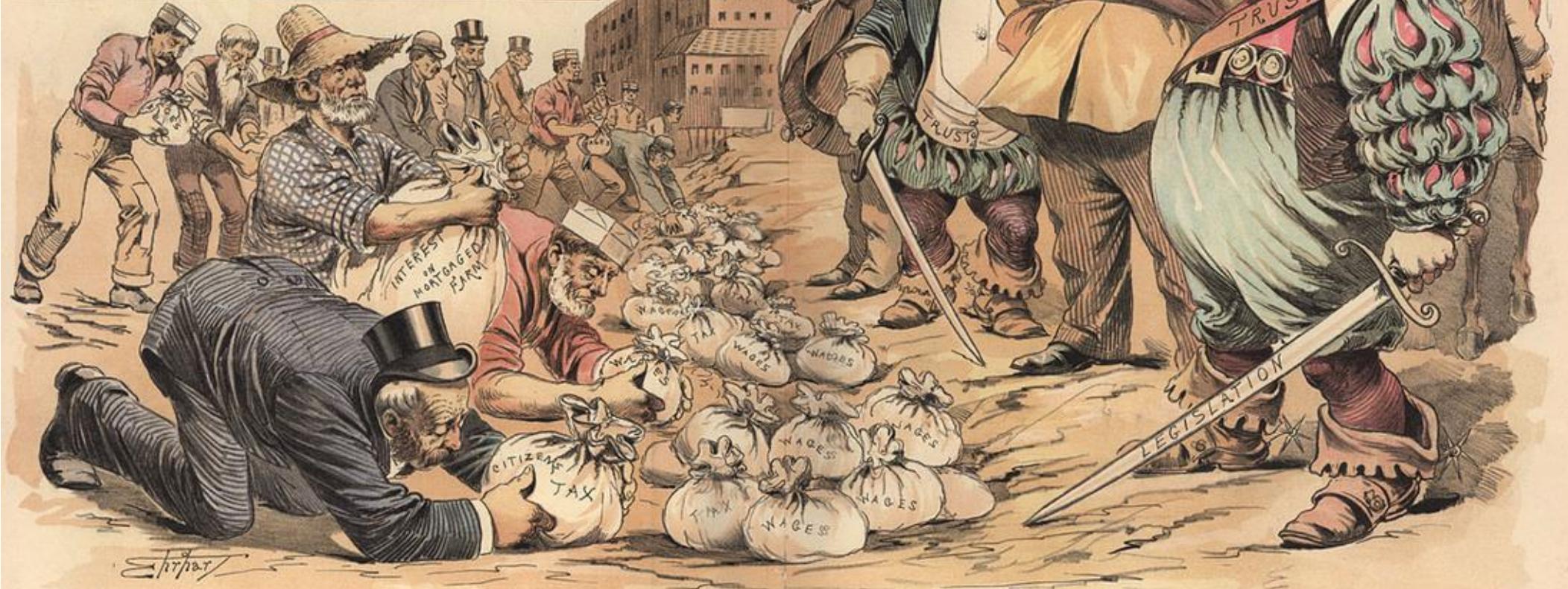
# Some Robber Barons...

---

- Rockefeller
- Carnegie
- Morgan
- Ford
- Hearst



THE TOURNAMENT OF TODAY - A SKIRMISH BETWEEN LABOR AND MONOPOLY.



HISTORY REPEATS ITSELF.—THE ROBBER BARONS OF THE MIDDLE AGES, AND THE ROBBER BARONS OF TO-DAY.

# Progressive Era

By 1900, America's **industrial production had surpassed that of Britain, Germany, and France combined.**

A spate of corporate mergers from 1897 onward left the economy in the hands of a dwindling number of business conglomerates, which seemed to be growing ever wealthier and larger. In the first decade of the twentieth century, national economic output increased by 85%.

**Meanwhile, African Americans, Native Americans, and Chinese were increasingly excluded from the growing opportunities for wealth and freedom.**

Recent **European immigrants** went to work on the nation's railroads and in its great factories and mills. They were told to do their jobs without complaint or they would be **easily replaced**.

The **rapid growth** and consolidation of industry produced a number of fissures in American life. Workers rose up to **strike** against the overwhelming power of their employers, demanding better wages and working conditions and disrupting national production and transportation industries.

There was a rise of '**Progressives**', who tended to be more urban-based, from the rising ranks of new white-collar professionals.

**Progressives waged battles over issues like government regulation of the economy and democratic reform of the electoral process. Some of them worked for female suffrage, others for temperance, and still others for immigration restriction, government inspection of foods and drugs, the abolition of pornography and prostitution, or the improvement of wages and working conditions (especially for women and children).**

Until the Populist and Progressive movements, the federal government had often intervened in the economy—but usually on behalf of business, not to regulate it. **Progressives prioritised the good of society as a whole above dogmatic assertions of individual freedom**

Roosevelt tried to distinguish between "good" and "bad" corporations (the bad he defined as monopolistic trusts in restraint of fair and open competition.) This so-called "**trust busting**" approach was a popular tactic with voters during the early twentieth century, as economic concentration peaked in the United States and **some 4,000 smaller businesses were swallowed up by larger conglomerates seeking to attain monopolistic power in the marketplace.**

However, trust-busting was always more a matter of legend than fact; the government never attempted to bust most of the country's trusts, other than a few widely publicised cases such as **1902 Northern Securities Company.**

In **1913** Taft introduced **income tax through the 16<sup>th</sup>.** This tax would help modernise the rapidly expanding federal government and provide it with a **stable source of revenue.** Up until this time, the government had relied on tariffs as its chief source of revenue.

Workers in the early twentieth century paid about \$5 a month in rent and their wives ran boarding houses, did laundry, and performed seamstress duties in order to earn the extra income that might help make ends meet.

**Of the 20 million industrial workers nationwide in 1900, 1.7 million were children; this was twice as many child labourers as there had been in 1870.**

If employees were hurt on the job, there was no form of workers' compensation offered to support them until 1910.

**Between 1880 and 1900, some 35,000 workers perished each year in factory and mine accidents.** Widows and orphaned children were left to their own devices for survival.

Retirement was a pipe dream for most Americans; pension plans and social security did not come into widespread existence until the Great Depression.

# THE EXPERIENCE OF DIFFERENT SOCIAL GROUPS

| RURAL WORKERS  | URBAN WORKERS  | INDUSTRIALISTS   | IMMIGRANTS  |
|--|--|--|---|
| <ul style="list-style-type: none"><li>South was less industrialised than cities, prices of cotton plunged</li><li>Fewer people lived in rural areas and now there were more living in cities</li><li>large amount of migration across the country</li><li>Child labour reform movement (1902-1915)</li></ul> | <ul style="list-style-type: none"><li>1910 population in New York City reached 4.7 million</li><li>First time in American History, more people lived in cities than rural areas</li><li>Conditions in urban working environments were terrible</li><li>Triangle Shirtwaist Fire in New York City 1911, where 500 women and girls were employed<ul style="list-style-type: none"><li>In less than 20 minutes 147 people were dead</li></ul></li><li>Freedom pushed people to fight for higher wages/join unions</li></ul> | <ul style="list-style-type: none"><li>Became so powerful most people felt they controlled the nation's economy</li><li>Robber barons + monopolies</li><li>The Clayton antitrust act 1914-gave the government the power to protect both competition and consumers by restricting certain unhealthy business practices</li><li>The Clayton antitrust act 1914 outlawed monopolistic practices</li><li>'Trust- busting'- government activities aimed at breaking up monopolies and trusts</li><li>Roosevelt's 'Square Deal'- three major goals: conservation of natural resources, control of corporations, and consumer protection, referred to as the three C's</li></ul> | <ul style="list-style-type: none"><li>Between 1880 and 1910, 17 million immigrants arrived in the United States</li><li>By 1910, almost 15 percent of the population was foreign born</li><li>Nativism dominant: Political policy protecting the interests of native/indigenous or established inhabitants over those of immigrants, including the support of immigration-restriction measures.</li></ul> |

# World War 1

The effects of WW1 on America were wide-ranging covering the political, economic and social impact the Great War had on the United States.

Unlike the countries of Europe, the factories and home of the US had not been destroyed. Manufacturing, production and efficiency had increased through necessity during the Great War.

America had emerged as a world industrial leader and the US economy was booming, profits were increasing leading to a massive rise in consumerism for the wealthy.

On the negative side, inflation was high and companies and corporations started to reduce wages and lay off workers to keep down operating costs.

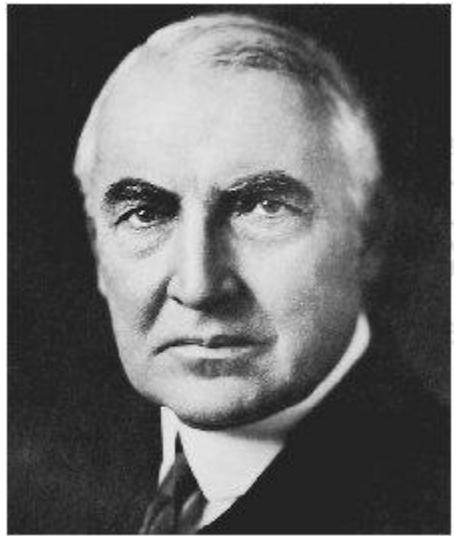
The power of the Unions had grown during the war, workers protested and 1919 saw a massive wave of strikes. Competition for employment led to racial unrest and race riots breeding hatred and suspicion which spilled over into the Red Scare and the fear of communism.

The introduction of Prohibition led to the rise of organised crime, speakeasies, gangsters, increased violence and massive political corruption.

# The Republicans (1921 – 1933)

- Between 1921 and 1933, American political life was dominated by the Republican Party. There were 3 Republican Presidents who governed the USA with massive popular support.
- Warren Harding (1921 – 1923)
- Calvin Coolidge (1923 – 1929)
- Herbert Hoover (1929 – 1933)
- The first two presided over a period of unrivalled economic prosperity while the third found himself elected in the year of the Wall Street Crash and struggled to assist citizens in the years of economic depression.

Warren Harding (1921 – 1923)



Herbert Hoover (1929 – 1933)



Calvin Coolidge (1923 – 1929)

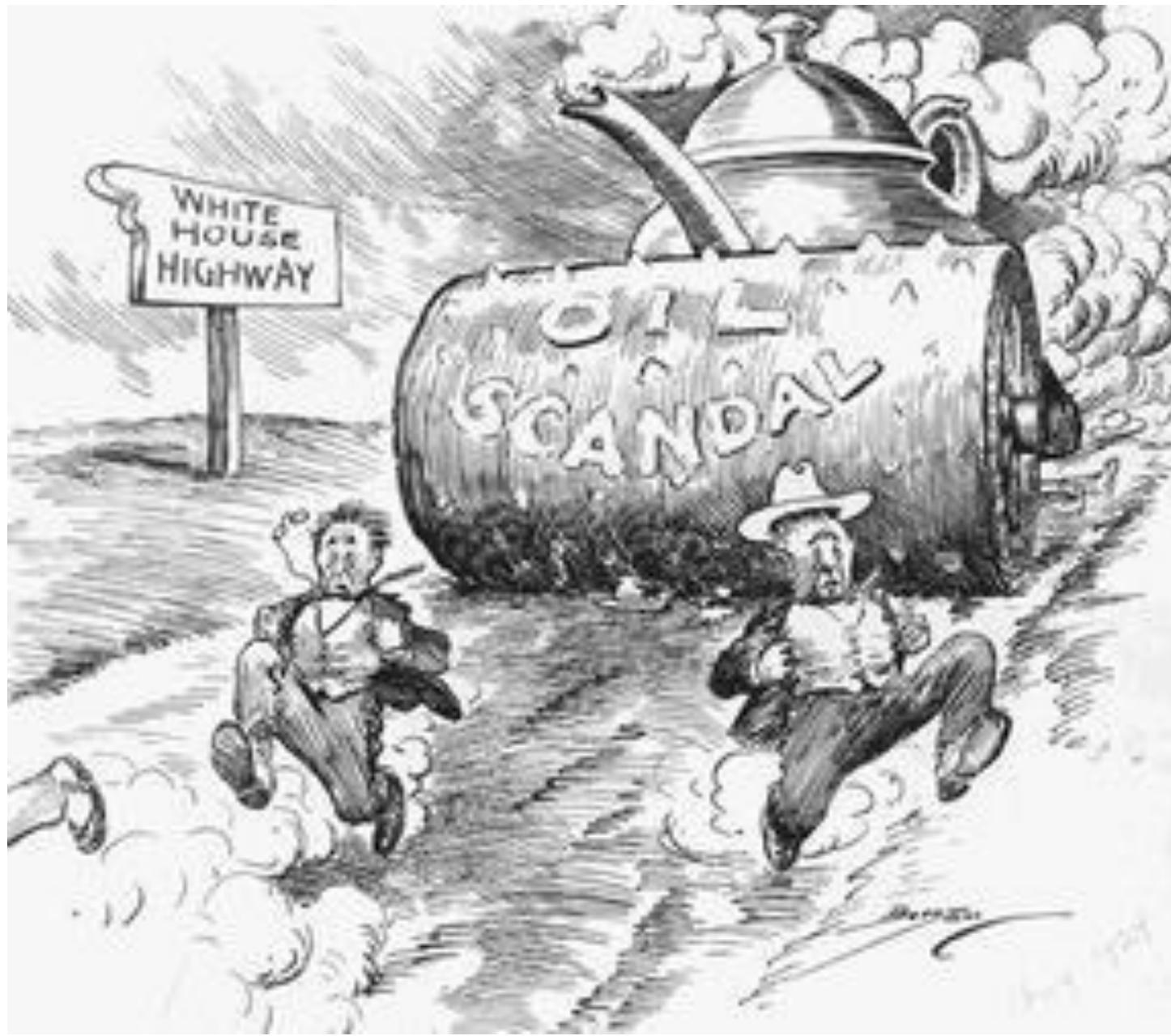


# Key features of Republican Policy

- Laissez-faire (1921 – 1933). That it was not the function of the government to interfere unless America's vital interests were threatened. Businesses were left alone to organise their own affairs and workers were left to bargain with their employers in regards to their wages.
- As a result of the Laissez-faire belief the government was reluctant to interfere in peoples lives and there were virtually no attempts made at social reforms during the Republican years. Workers tried to improve their conditions but without the necessary employment laws, felt hopeless. In 1921, 5.1 million American's were union members. By 1929 this had fallen to 3.6 million.
- Issues such as welfare provision and women's right were largely ignored. Women being given the vote took place in 1920 under Woodrow Wilson.

- Government intervention in the economic aspects of foreign policy to protect American Industry.
- Fordney – McCumber Tarriff (1922) and the Smoot – Hawley Act (1930) placed high tariffs on foreign imported goods. This was the highest tariff that had ever been imposed up until that time.
- Government intervention in certain social and moral issues.
- Prohibition, Censorship (Hayes Code) and the Scopes ‘Monkey Trial’.
- Government intervention in regards to immigration. Immigration Act in 1921 limited the number of immigrants allowed in America each year from Europe, Australia, Japan, the Near East and Asia to 3% of the number allowed in 1910.
- 1929 – total number of immigrants allowed was 150,000.
- WASPS: White Anglo-Saxon Protestants

- Low Taxation.
- The Revenue Act (1925) reduced some taxes and abolished others. There was a belief that people could make their own decisions in providing for their needs e.g. Medical, therefore reducing the need for high taxes and government involvement.
- Between 1924 and 1928 taxes on incomes over \$1M were reduced from 600,000 to 200,000.
- Government demanded that war loans were repaid. America = bank.
- Republican foreign policy was officially Isolationist. Involvement was never questioned if it was involvement to protect America's interests e.g. Coolidge's intervention in Latin America to protect oil interests.



# 'Mobility'

Of 106 million people living in America in 1920 52% resided in towns and cities



1920s increase – by 1930 69 million of 123million US inhabitants resided in urban areas



First time in US Farm pop'n showed a net decline: during 1920 13million rural Americans left the countryside



Construction of interurban highways + advent of mass ownership of Automobiles = rapid growth in suburbs

# Consumer Economy

From 1923 – 1930:

- Industrial output doubled
- GDP rose 40%
- Economy grew at 7% per year
- National per capita income increased by 30% (\$520 – 681)
- Prices remained stable, even dropping for some items in the late 1920s

By the mid 1920s a typical idle-class household owned an automobile, a radio, a phonograph, a washing machine, a vacuum cleaner, a sewing machine, and a telephone

Prosperity – Tech!: Ford's assembly line = Standard manufacturing

Output per manhour increased 75% over the decade

Consumer goods boom + new service industries to accommodate affluence and leisure

Ford: "Buy a Ford, spend the difference"

- 9, 000 cars a day by 1925 ( a new model-T every 10 seconds)

Bernays “the average person does not know what he wants until we tell him

Large stores over-powered the smaller ones (8,000 + mergers during the 20s)

Credit! - 1919 GM created the General Motors Acceptance Corporation (GMAC) the nations first consumer credit organisation.

By 199 Consumer debt had reached \$7Billion, twice the size of the federal budget

# Immigration

## The 1917 Immigration Literacy Act:

- implemented a literacy test that required immigrants over 16 years old to demonstrate basic reading comprehension in any language.
- It also increased the tax paid by new immigrants upon arrival and allowed immigration officials to exercise more discretion in making decisions over whom to exclude.
- Finally, the Act excluded from entry anyone born in a geographically defined “Asiatic Barred Zone” except for Japanese and Filipinos

1917

1924

The Immigration Act of 1924 limited the number of immigrants allowed entry into the United States through a national origin quota

- The quota provided immigration visas to two percent of the total number of people of each nationality in the United States as of the 1890 national census. It completely excluded immigrants from Asia
- The 1924 Immigration Act also included a provision excluding from entry any alien who by virtue of race or nationality was ineligible for citizenship.

# GOVERNMENT (HARDING)



Congress lowered corporation taxes in 1921 ad raised tariff rates a year later



Secretary o f the treasury (Mellon) persuaded Congress to slash federal spending from \$18 billion to \$3 billion in 1925 + reduce income tax in 1926



1921, railroads privatised, protected industry



Hoover (commerce) established federal agencies to make the housing, transportation and mining industries more efficient



Progressivism?: A group of Mid Western Senators supported Labor legislation and aid to farmers



Unions: the justice department used court injunctions against Striking unions: the 'Clayton's act provisions that were designed to protect unions = useless



"Welfare Capitalism" = Union membership dropping from 5 million in 1920 to 3.6 million at the end of the decade



Scandal! Harding's administration: Charles Forbes - prison for Fraud and Bribery, Secretary of the interior Albert Fall ("Teapot Dome scandal")

# Government (Coolidge + Hoover)

Devoted to the principles of Laissez Faire “The business of the American people is Business” and “if the federal government disappeared, the average citizen would probably never notice the difference”

Blended Religious and Business ideologies: “ The man who builds a factory builds a temple. The man who works there worships there”

1924 Presidential nomination: Won 15.7million votes to 8.4 million for the next candidate = “Coolidge Prosperity”, Republican domination in the houses = “Keep cool with Coolidge”

1928 Hoover: a ‘progressive republican’ – Won 21 million to 15 million: “Two Cars in every garage and a chicken in every pot”

“The election had again confirmed the determination of the American People at regulation of private enterprise ... is the course rightly to be pursued in our relations to business” Hoover

# Prohibition

- Temperance movement
- Prohibition was a nationwide ban on the sale and import of alcoholic beverages that lasted from 1920 to 1933.
- Protestants, Progressives, and women all spearheaded the drive to institute Prohibition.
- Because the law did not specifically outlaw the consumption of alcohol, however, many US citizens stockpiled personal reserves of beer, wine, and liquor before the ban took effect.
- Prohibition led directly to the rise of organized crime: Al Capone (Distillation of Alcohol)
- The **Twenty-first Amendment**, ratified in December 1933, repealed Prohibition.

BUT ....

- Average per-capita income rose 10% vs Wealthiest rising 75%
- Savings of the top 60,000 families exceed the savings of the 25 million poorest families
- Cuts in income and business tax mainly of the wealthy increased the inequality
- = Economy dependant on the 'Wealthiest' spending and saving for economic growth = stock, investment and luxury purchases instead of consumer durables
- Gap between supply and demand grew and in 1928/19289 saw increased unemployment and declining incomes and production decrease
- Industrial Wages rose 10% during the decade but workers earned a smaller share in the national wealth (due to technology)
- Long before the Wall Street crash Bank failures had began: between 1921 and 1928 more than 5 thousand small banks had failed



# The long depression – Farmers

---

Had never recovered from the collapse of the commodity prices from ww1

---

Most farmers had been suffering from a kind of permanent recession since 1921

---

They had received 16% of national income in 1919; 10 years later, they received only 9%

---

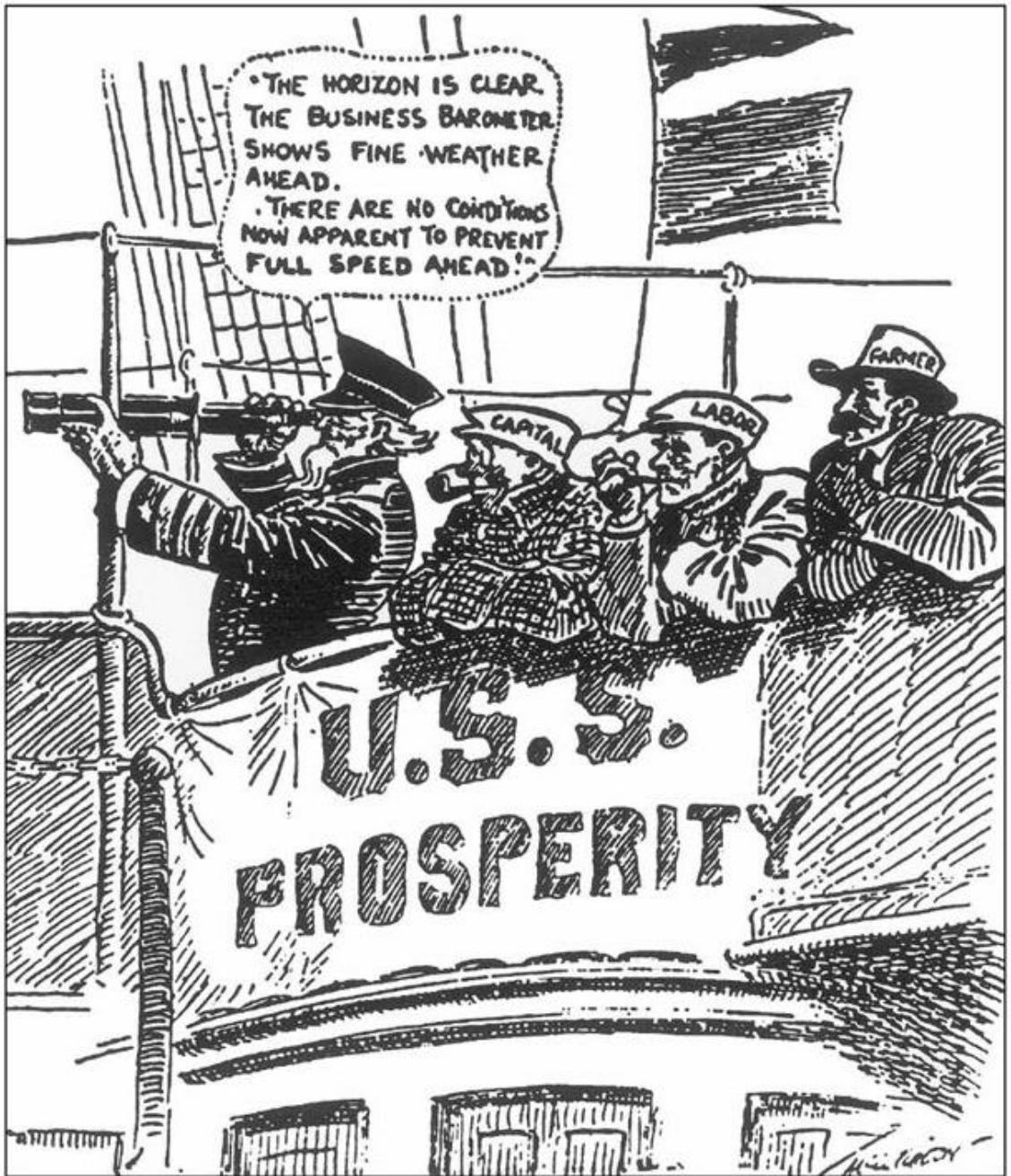
Because of their declining incomes, farmers' purchasing power had remained weak during the 1920s

# The American Boom

- Between 1921 and 1929 American's enjoyed a level of economic prosperity that had never been seen before anywhere in the world.
- Despite the fact that this widespread prosperity eluded some social groups the majority experienced a steady level of rise in wages.
- Americans were able to purchase an unprecedented range of consumer goods that were manufactured by new techniques of mass production.
- *"We in America are nearer to the financial triumph over poverty than ever before in the history of our land. The poor house is vanishing from among us". (Herbert Hoover 1928)*

# Causes of Economic Prosperity

- Economic development – change in being a debtor nation to being the world's main creditor. (post WW1)
- Technological innovation – Henry Ford's assembly line (1913), sped up production and decreased costs creating large profits to industrialists.
- War markets – Food and munitions previously supplied by Britain and Germany. Growing exports and profits.
- Creation of an economic climate where industry and business prospered. This was due to Republican policies (laissez-faire, high tariffs, low taxation)
- Development of Capital and Credit. (hire purchase)
- Middle and Upper classes now had spending power.

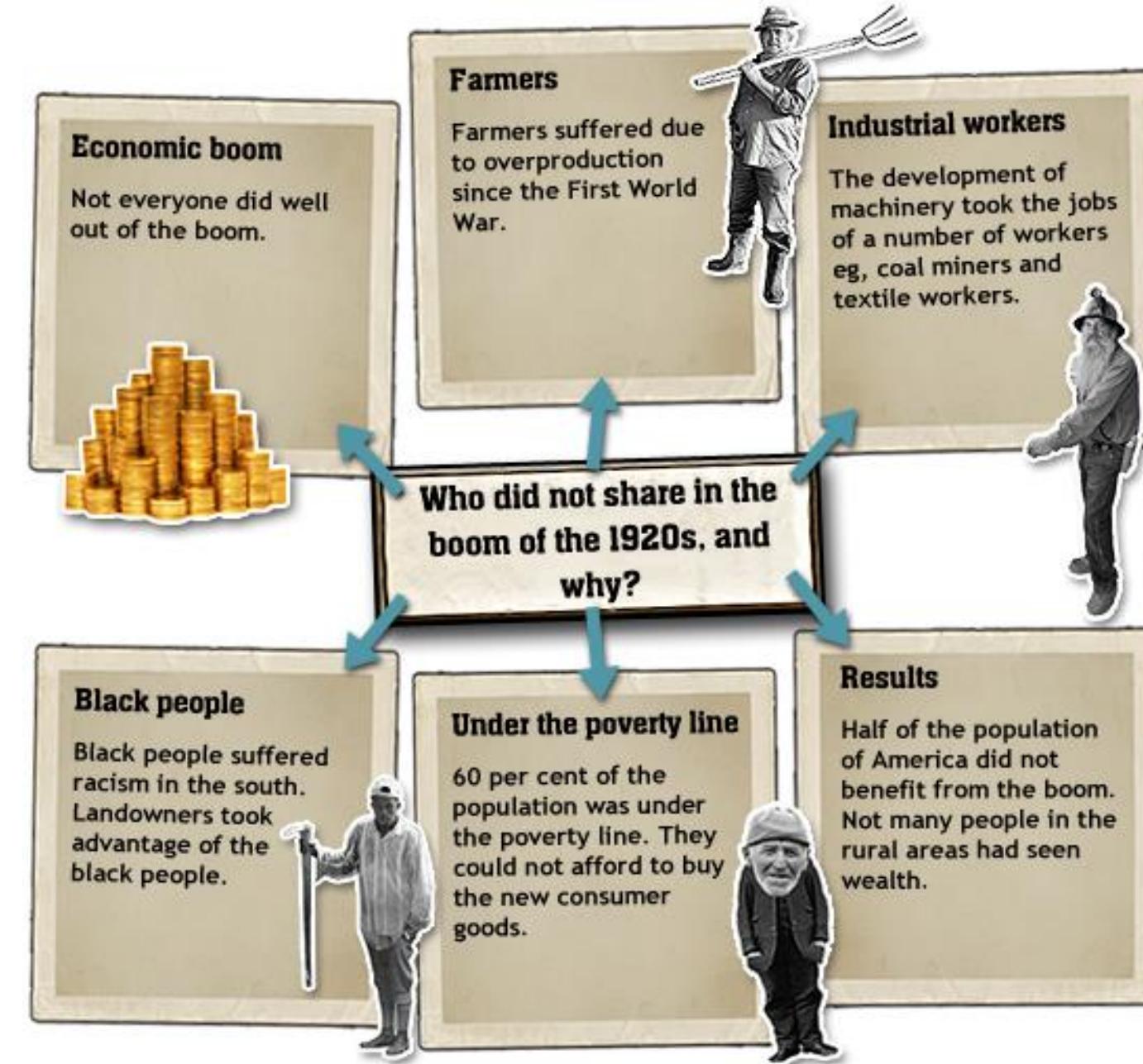


# Some quick facts

- Between 1921 and 1929 average wages in the USA rose from \$1,308 to \$1,716 per year. Business profits rose by 80%
- In 1914 only 30% of factories were powered by electricity, by 1929 70% of factories were powered by electricity.
- A range of new consumer goods manufactured using mass production methods were available e.g. vacuum cleaners, typewriters, cars.
- Advertising and sales via radio and print. Americans owned 60,000 radios in 1920, but 10 million by 1929. Creation of mass audience.
- There were 312 department stores in 1920 and 1,395 by 1929.
- Hire purchase and credit meant that people could buy goods immediately and speculate 'on the margin' in the stock market.

# Henry Ford

- 1903 – Ford Motor Company in Detroit
- 1908 – producing 100 cars per day (mass production was already being used in some industries e.g. Firearms, railway engines).
- Introduction of assembly line. Higher production targets, specialised equipment and revolutionary techniques meant lower prices.
- Model T (1914) was \$850, Model T (1926) was \$295
- 1914 Ford doubled the wages for his workers to \$5 per day.
- 1920 – 8 million cars, 1929 – 23 million cars.
- Increased road construction, more fuel stations, hotels and restaurants. The nation as a whole became more mobile and cars stimulated the growth of other industries.



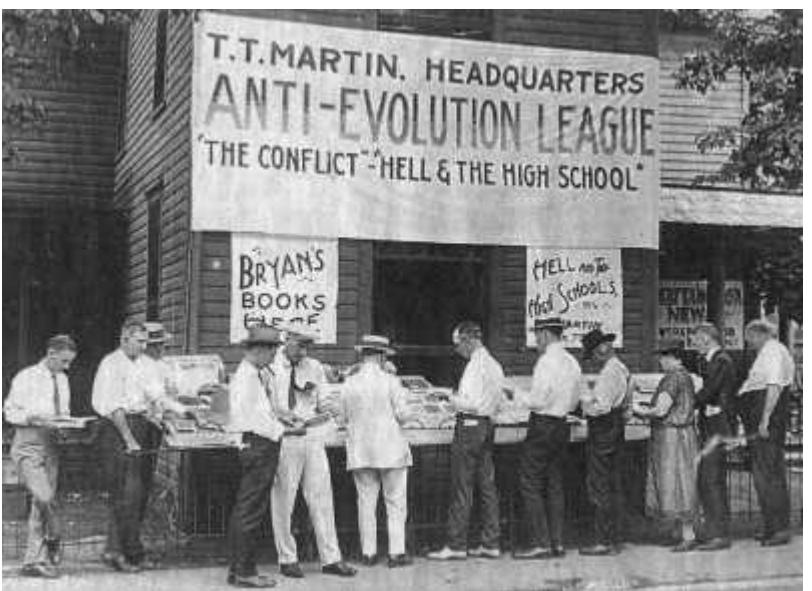
# Roaring 20s

An era of unprecedented affluence best remembered through the cultural artefacts generated by its new mass-consumption economy: a Ford Model T in every driveway, the radio and the first talkie at the cinema, baseball hero Babe Ruth in the ballpark and celebrity pilot Charles Lindbergh on the front page of every newspaper.

As a soaring stock market minted millionaires by the thousands, young Americans in the nation's teeming cities rejected traditional social norms by embracing a modern urban culture of freedom—drinking illegally in speakeasies, dancing provocatively to the Charleston, listening to the rhythms of jazz music.

For the first time in United States history, a majority of Americans living in cities.

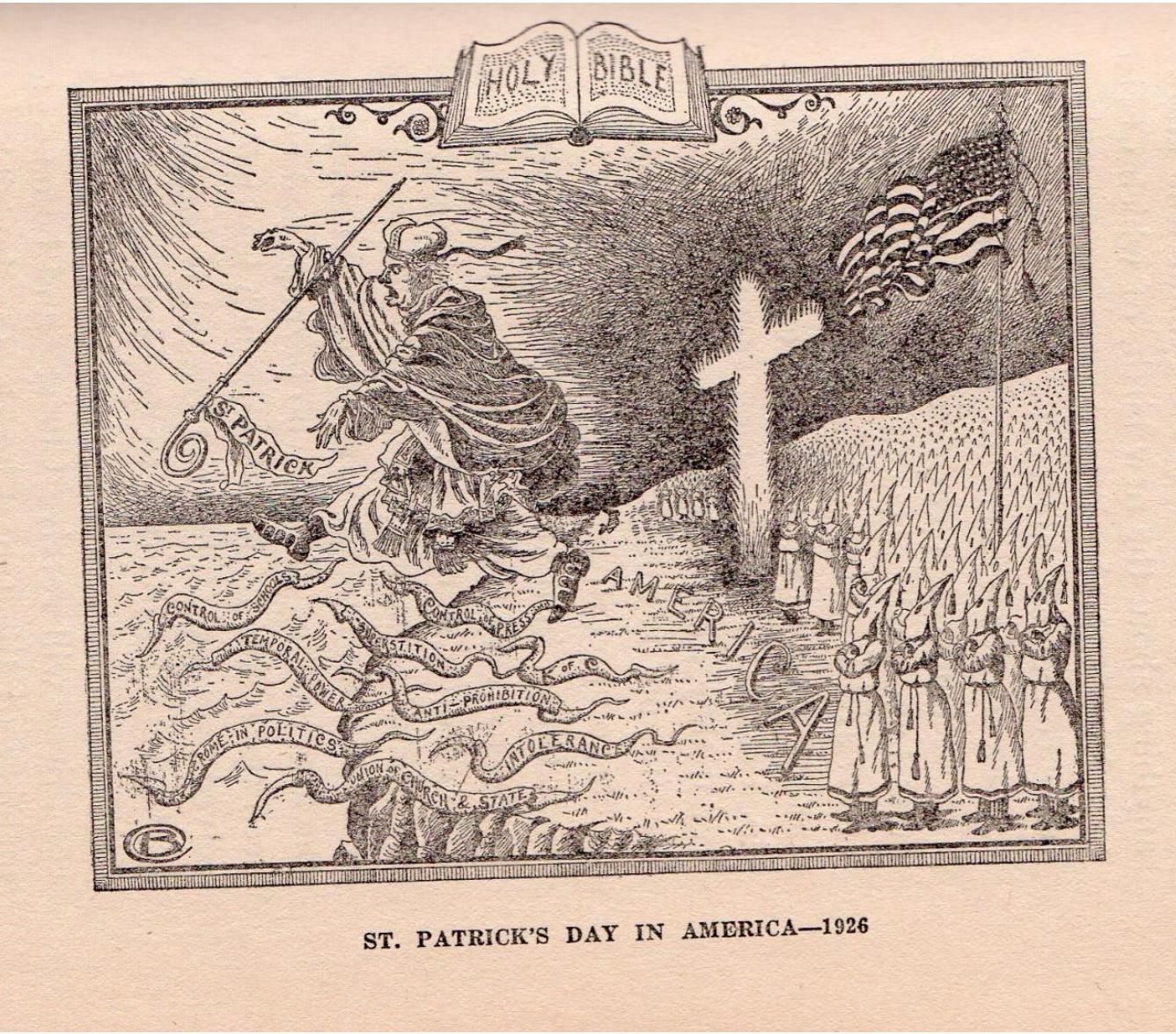
*'By the 1920's ... America had much to shock, enthrall and fascinate – mass motoring, screaming advertising, endless movies, records sold by millions, twenty four hour radio ... But above all, it had jazz.' (Paul Johnson, History of the American People)*



For American farmers, the Great Depression began not with the stock market crash in 1929 but with the collapse of agricultural prices in 1920. Thus the entire decade of the 1920s was a time of poverty and crushing indebtedness, leading to ever-rising foreclosures of family farms. More than 90% of American farms lacked electricity, and the proportion of farms with access to a telephone actually decreased over the course of the decade.

Rural Americans—overwhelmingly native-born, white Protestants—found the modern, sexualized, multi ethnic culture of the cities deeply offensive to their traditional beliefs. Their antagonism toward the perceived cultural excesses of the "Roaring Twenties" fuelled a political backlash that allowed a resurgent KKK —anti-black as always, but now also anti-immigrant, anti-Catholic, anti-Semitic, anti-evolution, anti-drinking, and anti-sex—to take over several state governments.

The 1920s roared with a clash of civilizations as Americans struggled to reconcile the prosperous modernity of the city with the impoverished traditionalism of the country.



ST. PATRICK'S DAY IN AMERICA—1926

# A society in conflict

- By the 1920's, the dream had become a nightmare for thousands of hopeful immigrants and America's liberal ideals had become even more visibly tainted with intolerance, hatred and racial prejudice.
- Fundamentalism and the Scopes 'Monkey Trial'
- African American migration
- The 'Red Scare' and the Palmer Raids (1919 / New Years Day 1920)
- Sacco and Vanzetti (Quota Act of 1921, National Origins Act of 1924)
- The KKK
- Harlem Slums

# Underlying weaknesses in the economy

- Unequal distribution of wealth (Capitalism, poor working class and a separate banking system)
- Farming problems (overproduction, mechanisation)
- Trade problems (High tariffs, closed European markets)
- Stock Market speculation
- Lack of economic regulation

1927 ...

- “It had become so easy to make money on Wall Street that it had ceased to be a gamble” (William Payne)
- The storm clouds had begun to appear
- Sales of new cars went down, fewer new houses were built, rise in wages slowed down, earnings decreased for farmers.
- July 1928 the Federal Reserve Board increased interest rates in an attempt to dampen speculation. They also warned banks against lending money for the purpose of Stock Market speculation.

New York Times – Thursday 24<sup>th</sup> October 1929.

PRICES OF STOCKS CRASH IN HEAVY LIQUIDATION. TOTAL DROP OF BILLIONS.

PAPER LOSS \$4,000,000

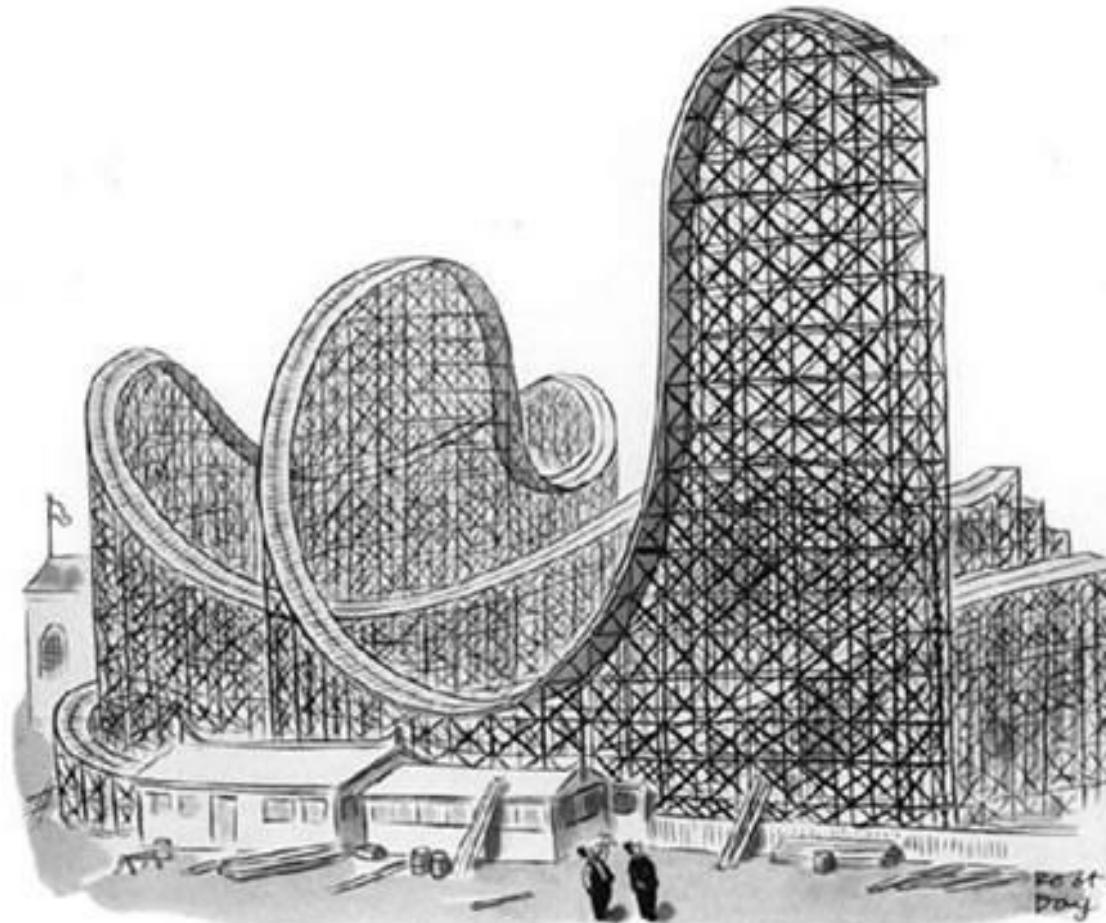
2,600,000 SHARES SOLD IN THE FINAL HOUR IN RECORD DECLINE.

MANY ACCOUNTS WIPED OUT

BUT NO BROKERAGE IS IN DIFFICULTIES AS MARGINS HAVE BEEN KEPT HIGH.

# Stock Market Crash

- October 24<sup>th</sup> 1929 – Black Thursday
- Stock market had been unstable (despite media reports to the contrary) since July.
- Panic set in, and prices dropped alarmingly as more and more investors tried to sell their holdings. The New York Stock Exchange opened its doors at 9am and stock brokers started to sell their shares in large numbers immediately. By the middle of the day shares in even the largest companies had decreased significantly in price.
- By the end of the day the Stock Exchange had lost \$4 billion.
- Over the weekend (26 – 27<sup>th</sup> October) banks began to ask brokers for borrowed money back, brokers had to ask customers for repayments, customers sold shares (at any price) to repay their debts. PANIC!



# STOCK MARKET, THE RIDE

# THE STATE OF THE UNION

By 1932:

- Wheat prices had dropped from \$2.16 in 1919 – 38 cents in 1932
- $\frac{1}{4}$  of all farmers had lost their land
- Farm net Cash incomes dropped 55% between 1929 and 1932
- Full time steel workers had dropped from 225,000 (1929) to 0 (1932)
- The number of business failures reached approx. 32,000 in 1932

By 1933:

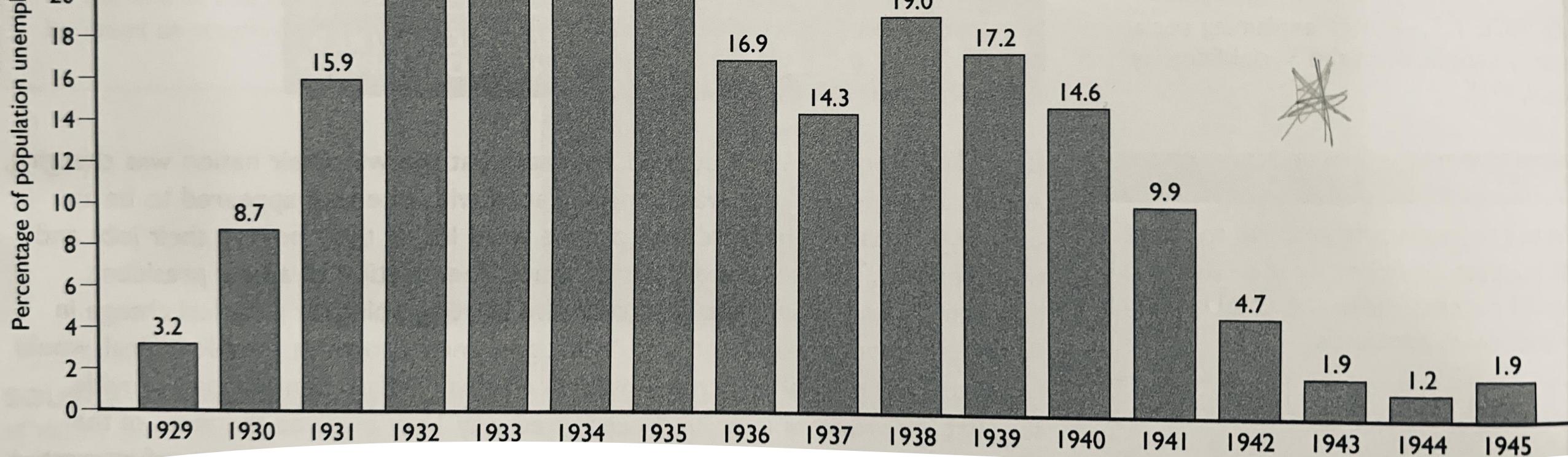
- Bank failures had gone from approx. 600 in 1929, to 4,000 in 1933
- Car Sales had gone from \$4.6 million (1929) to 1.6million (1933)
- Unemployment had gone from approx. 3million (1928) to almost 14million (25%) (1933)

Generally:

- National Output had been cut by half and was now less than in 1915
- Investors lost as much money in October 1929 as the USA had spent in fighting in the First World War

## **EVERYONE' S A ... . . LOSER**

- The optimism and trust in economy of America had vanished
- People who had brought ‘on the margin’ now had to sell whatever they had to pay this: Business, Land, house, car, tools
- Rockefeller family lost 4/5ths of its fortune
- Churchill lost \$500,000
- (Banker) JP Morgan Jnr as much as \$60million



## UNEMPLOYMENT

- In 1928, the final year of the Roaring Twenties, unemployment was 3.2%. That's less than the natural rate of unemployment.
- By 1930, it had more than doubled to 8.7%.
- In 1931, it skyrocketed to 15.9% in 1931 and, in 1932, to 23.6%. By 1933, unemployment was 24.9%. Almost 15 million people were out of work. That's highest unemployment rate ever recorded in America.
- The unemployment level never hit quite as dire a level for the remainder of the depression, but the rate was still over 10% until the early '40s, when the U.S. entered World War II

# BANK FAILURES

During the Depression, half of the nation's banks failed

In the first 10 months of 1930 alone, 744 failed

That was 1,000% more than the annual rate in the 1920s

By 1933, 4,000 banks had failed. As a result, depositors lost \$140 billion

People were stunned to find out that banks had used their deposits to invest in the stock market

They rushed to take their money out before it was too late. These “runs” forced even good banks out of business.

# TRADE

As countries' economies worsened, they erected trade barriers to protect local industries

In 1930, Congress passed the **Hawley-Smoot tariffs Act**, hoping to protect U.S. jobs

Other countries retaliated: This created trading blocs based on national alliances and trade currencies

World trade plummeted 66% as measured in dollars and 25% in the total number of units

By 1939, it was still below its level in 1929.

U.S GDP for the first five years of the Depression:

- 1929: \$103.6 billion
- 1930: \$91.2 billion
- 1931: \$76.5 billion
- 1932: \$58.7 billion
- 1933: \$56.4 billion

# POLITICS OF THE GREAT DEPRESSION (HOOVER)

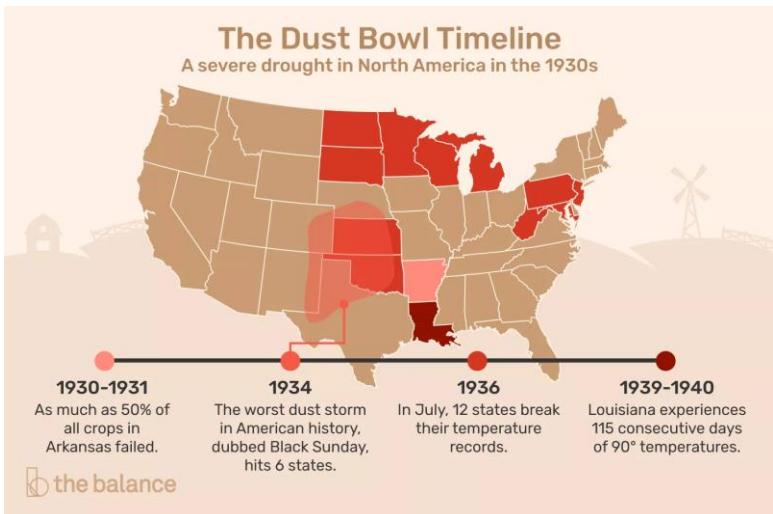
- Gave support to the financial structure rather than to individuals
- Feared that federal relief would weaken 'American Character' (Self-sufficiency and Individualism)
- Emphasis on Voluntary help and the funding on institutions to help the needy
- 1932 – one of the most unpopular Presidents
- "Hoover Blanket", "Hoovervilles", "Hoover flag"
- "Hoover was painfully bruised by blows from both the left and the right. As early as 1919 he had conceded that 'I do not ... have the mental attitude or politicians manner .... And above all I am too sensitive to political mud'". (D Kenny, 1999)

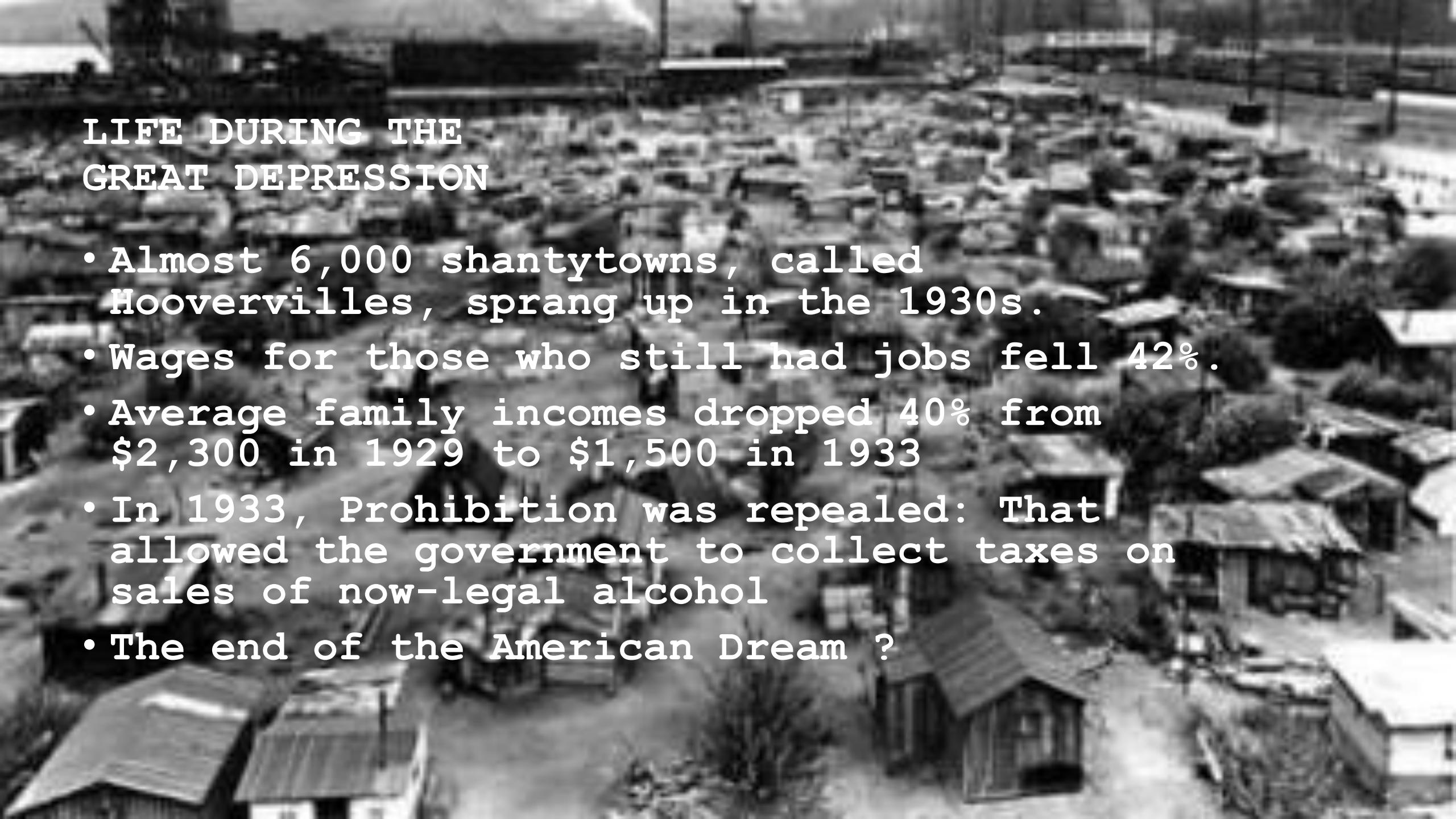




# MASS MIGRATION

- The Dust Bowl drought destroyed farming in the Midwest.
- It lasted 10 years, too long for most farmers to hold out.
- To make things worse, prices for agricultural products dropped to their lowest level since the Civil War. □
- As farmers left in search of work, they became homeless.
- The GREAT PLAINS lost population to states such as California and Arizona.
- The Dust Bowl sent thousands of "OKIES" and "ARKIES" looking to make a better life
- Many of the MIGRANTS were adolescents seeking opportunity away from a family that had younger mouths to feed
- Over 600,000 people were caught hitching rides on trains during the Great Depression





## LIFE DURING THE GREAT DEPRESSION

- Almost 6,000 shantytowns, called Hoovervilles, sprang up in the 1930s.
- Wages for those who still had jobs fell 42%.
- Average family incomes dropped 40% from \$2,300 in 1929 to \$1,500 in 1933
- In 1933, Prohibition was repealed: That allowed the government to collect taxes on sales of now-legal alcohol
- The end of the American Dream ?

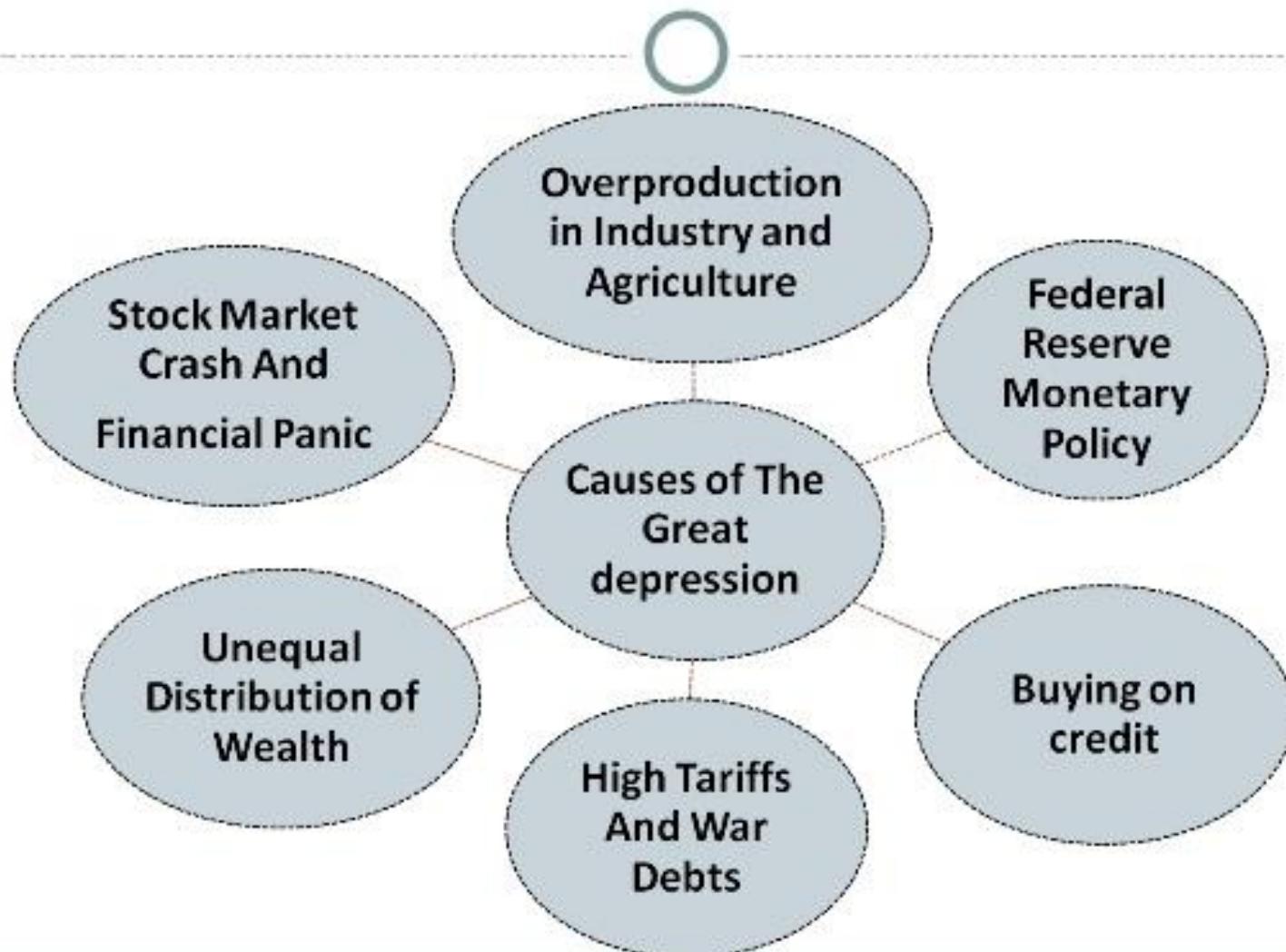
# Great Depression

What made the miseries of the Great Depression so incomprehensible to those who endured them was the evident fact that the economic collapse had been caused not by want but by material abundance.

The problem with American capitalism in the 1930s was that there was too much of everything—too much supply, not enough demand. Too many automobiles, and not enough workers who could afford to buy them. Too much cotton, too much corn, too much pork, too much beef, too much wheat, and not enough buyers able to pay a price that made the crops worth harvesting. Too many workers needing jobs, and not enough employers to hire them.

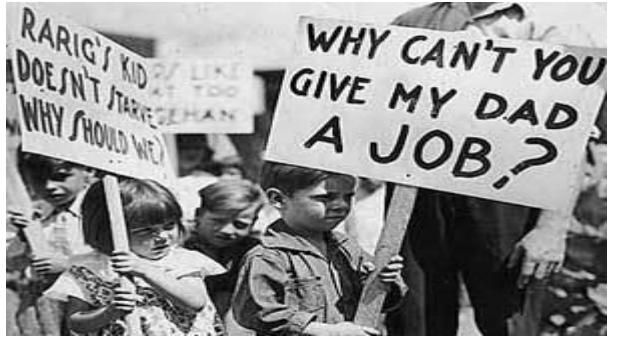
In the memorable words of FDR "our distress comes from no failure of substance. We are stricken by no plague of locusts... Nature still offers her bounty and human efforts have multiplied it. Plenty is at our doorstep, but a generous use of it languishes in the very sight of supply."

# **Causes of The Great Depression**



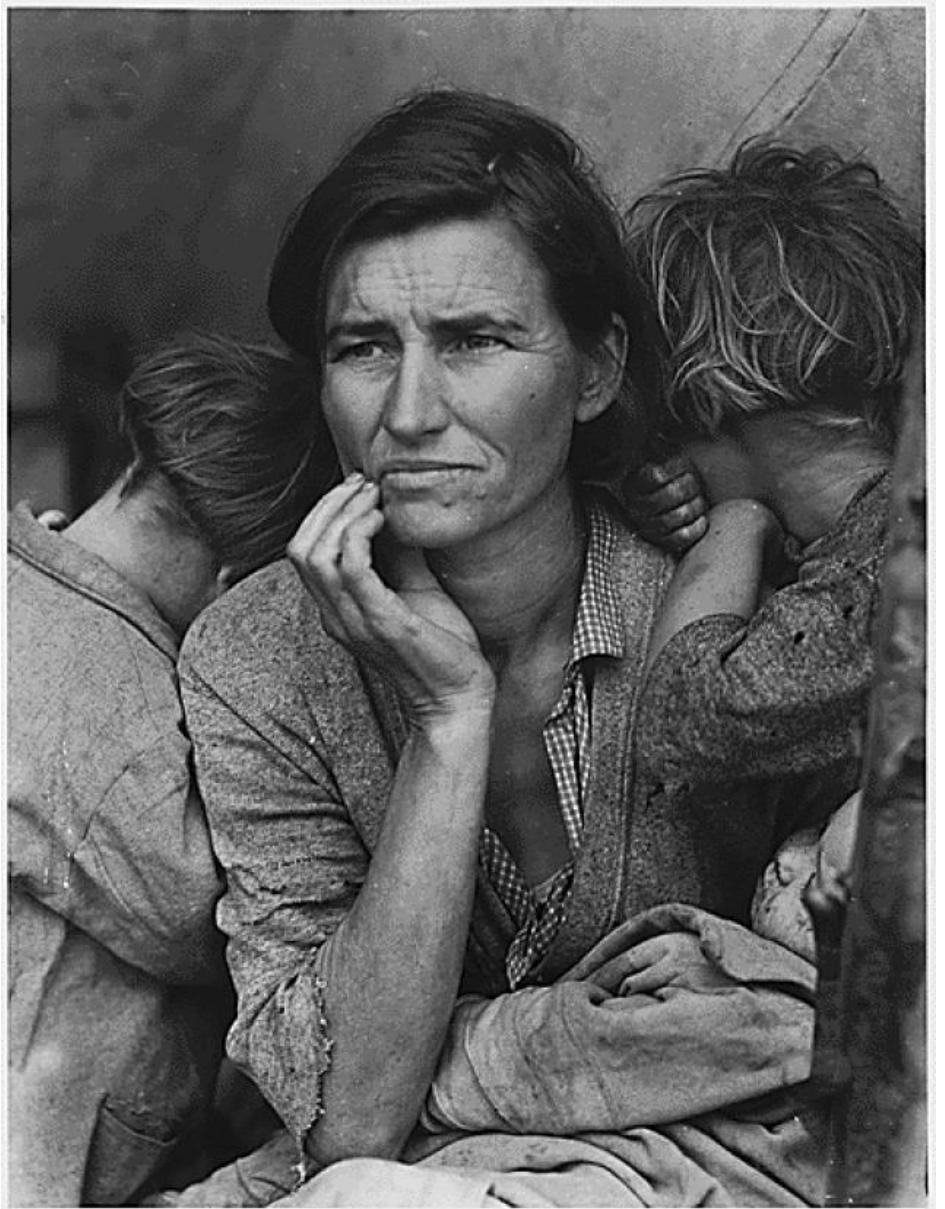
# Key Points – The Great Depression

- Gross National Product (the value of goods produced combined with income from overseas) went from \$104 billion to \$59 billion in 1932.
- Farm prices fell by 60% from 1929 to 1932
- Wheat prices plunged from \$1.04 per bushel to 51 cents.
- 5,500 banks had closed by 1933
- 20,000 companies went bankrupt
- Unemployment soared from 3% in 1929 to 25% in 1933. 13 million people were unemployed by 1933 (daily increase of 12,000)
- National income halved. \$80 billion in 1929, \$40 billion in 1932.



# The Human Cost (Social Effects)

- American farmers lost their farms and livelihood
- Unemployment created destitution
- Homelessness – Hoovervilles
- Ill health, inadequate medical care, malnutrition
- By 1933 300,000 children were out of school
- Rising suicide rate and broken families
- Older adults had no pensions and their savings were worthless
- Failure of government intervention (The bonus marchers)



## Great Depression

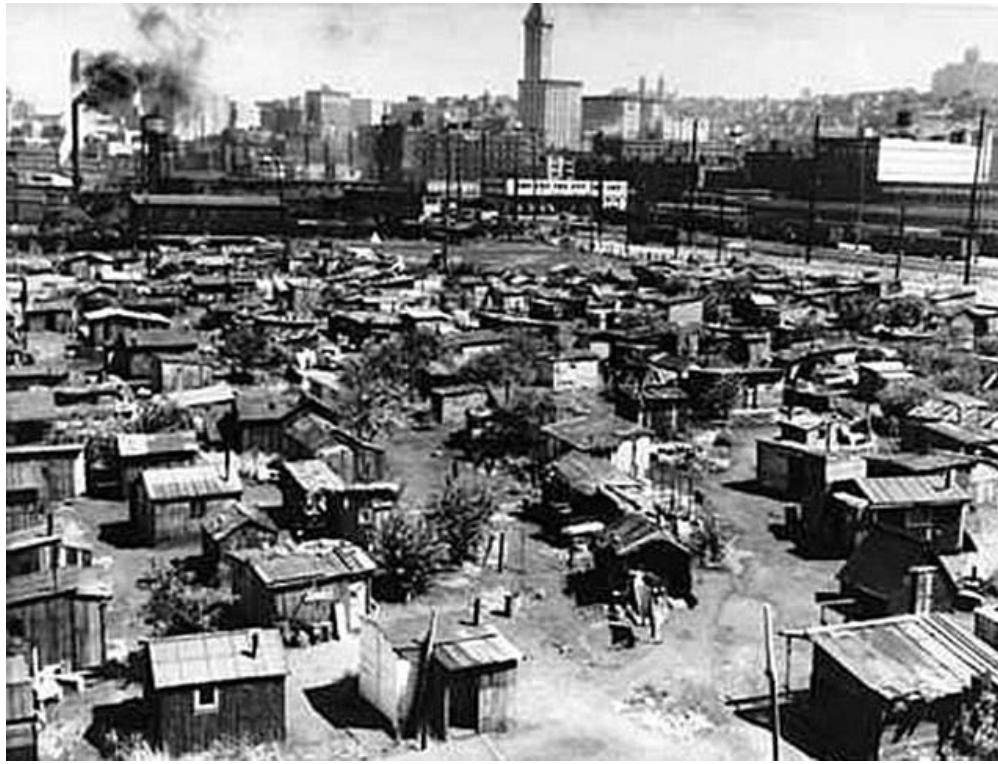
The Great Depression plunged the American people into an economic crisis unlike any endured in this country before or since. The worst and longest downturn in our economic history, with millions experiencing poverty.

The Depression provided the impetus for President Franklin D. Roosevelt's New Deal, which forever changed the relationship between the American people and their government, and which is usually considered to be one of the most significant periods of political reform in American history.

In retrospect, it became easy to view the New Deal as the natural response to the Depression. At the time, however, the New Deal was only one of many possible responses to an American capitalist system that had seemingly lost its way.

By the middle of the 1930s, as the American people endured half a decade of misery with no end in sight, some began to flirt with much more radical alternatives to the liberal reformism of the New Deal.

Communists agitated for revolution, while Share our Wealth enthusiasts demanded class-based wealth redistribution without endorsing the Communists' ideology. Meanwhile, on the other end of the political spectrum, the country's most popular radio personality, Father Charles Coughlin, was moving from support for the New Deal to bitter denunciations of it and openly flirting with fascism.



# Roosevelt's New Deal

- The 'Lame Duck' months
- Until Roosevelt's inauguration Hoover attempted to revive the economy and to stop the rise in unemployment.
- He reduced government spending by \$800 million, tried to reorganise the banking system and reduced spending on weapons.
- All these policies failed.
- The Hundred Days
- 4<sup>th</sup> March – Roosevelt Inaugurated
- 9<sup>th</sup> March – Emergency banking act
- 15<sup>th</sup> March – Economy Act
- 20<sup>th</sup> March – Beer Act
- 31<sup>st</sup> March – Civilian Conservation Corps
- 12<sup>th</sup> May – Federal Emergency Relief Administration / Agricultural adjustment administration
- 18<sup>th</sup> May – Tennessee Valley Authority



# Alphabet Agencies

- Civilian Conservation Corps (CCC)
  - Young men lived in camps run by the army. They did conservation work like planting trees. They were paid \$1 per day. By August 1933 250,000 men.
- Federal Emergency Relief Administration (FERA)
  - Had \$500 million to give to the hungry and the homeless.
- Agricultural Adjustment Agency (AAA)
  - Helped farmers increase profits by adjusting the amount of crops they grew.
- Tennessee Valley Authority (TVA)
  - Planned to build 16 dams on the river in the Tennessee Valley for irrigation and electricity. Thousands of jobs were created.
- National Recovery Administration (NRA)
  - Employers were persuaded to pay fair wages and charge fair prices.

# World War 2

In late 1939, President Roosevelt decided it would be necessary to invest time and money into national defence.

By the spring of 1940, he convinced Congress to increase defence spending, enlarge the army, and expand the U.S. military air fleet. Through billions of dollars in federal spending—largely focused on rearmament and national security he managed to funnel money into a peacetime draft, increase wages for military personnel, offer subsidies for defence manufacturing, and grant loans to aid Great Britain and the Soviet Union.

When Japanese bombers attacked Pearl Harbor in December 1941 and the United States became embroiled in world war, the nation was revved for the challenges ahead.

By the first years of American involvement in World War II, wartime manufacturing facilities had been established throughout the nation, creating a tremendous demand for labour.

War mobilization (the rapid production of military equipment, vehicles, weapons, and ammunition, along with the fortification of American borders and military bases abroad) coupled with the military draft to create a vast labor shortage.

Employers were desperate to fill positions as quickly as possible to meet production demands and needed to hire workers *en masse*. Positions, then, had to be opened not simply to the traditional labour force, but also to women and non whites.

The demand for labor was so great all across the nation that proprietors had to offer high wages and other fringe benefits to lure potential away from competitors. Businesses practically begged for workers, offering extraordinary incentives such as medical care, exemption from the military draft, day care facilities, and even paid maternity leave, a perk previously unimagined.

Wartime mobilization contributed not merely to a temporary respite from the Great Depression, but planted the seeds for post-war economic growth.

# American Capitalism and the second World War

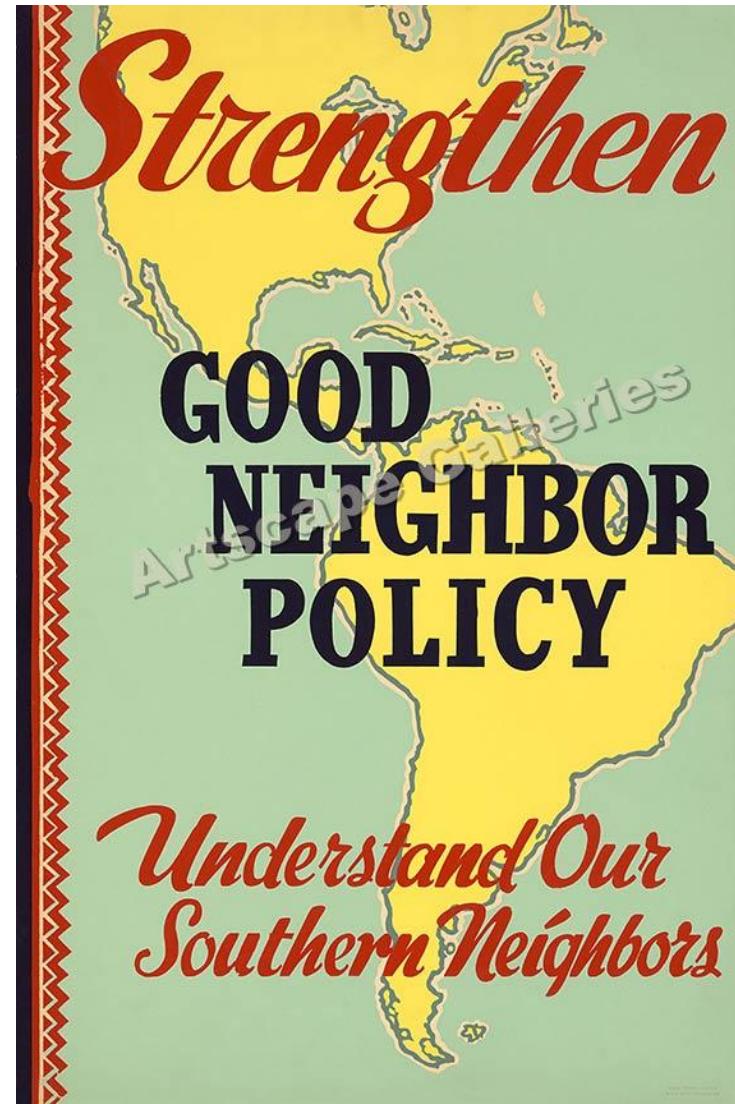
# Kellogg-Briand Pact 1928

- FDR (Prior to presidency)
- Renounced war as a mean of settling international relations
- However - little substance and no sanctions



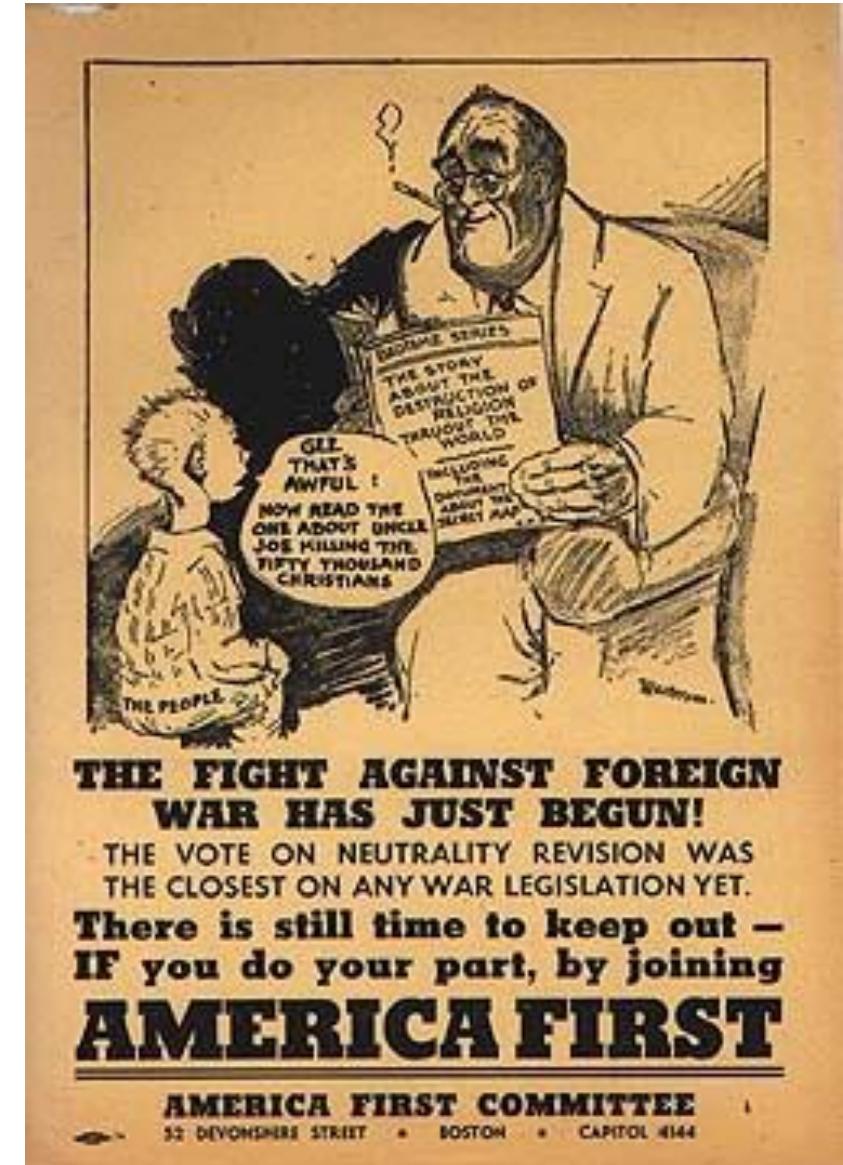
# The “Good Neighbour” Foreign Policy

- Economic basis
- Relations with Latin America, Mexico and Haiti
- Pulling out of these wars meant positive economic growth



# Neutrality Acts

- 1935 Neutrality Act forbade the sale of munitions to those fighting a war
- 1936 2nd Neutrality act banned loans to these countries
- 1936 3<sup>rd</sup> extended to Civil wars
- 1939 4<sup>th</sup> act: US citizens not to travel on their ships



# Re-arming

- US arms manufacturers: supplied arms and technology to the Germans and French in the lead up to war
- Dec 1938 FDR began to re-arm US
- Jan 1939 \$500million allocated for military spending
- By 1941 military budgets 4 times of 1940 budgets



# The war begins in Europe: America chooses a side

- Sept 1939 – “Cash and Carry” Policy
- Protect Democracy – Great Britain the only strong democracy left fighting the war
- Saw Germany as the Aggressor and thus chose the Allied side
- This would also effect future markets (economic involvement in Germany and Europe immediately post war)



