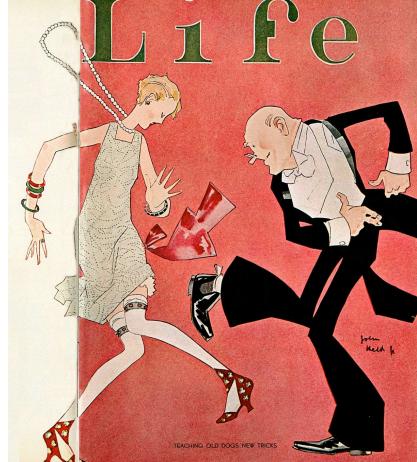




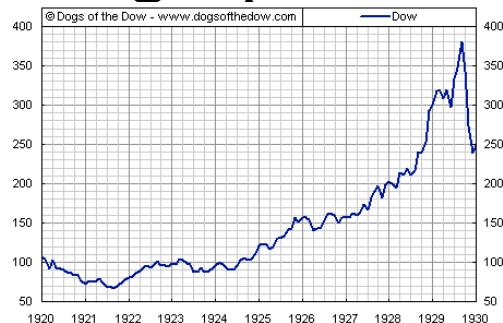
© Richard Heeks / Barcroft Media

Causes of the Great Depression

Roaring '20s



- Laissez-Faire →
 - Wages 2x 1914 levels
 - Cheap, abundant energy → low manu. costs
 - National Market ↑ → Investment encouraged
 - Low taxes on rich
 - **Ford, Taylor** build factories, master mgmt. techniques
 - Consolidation of industry → monopolies
 - Belief that the market would always be good → **buy stock on margin** → stock prices soar (inflation)
 - ↓ IR to influence EUR mkts and get paid for WWI

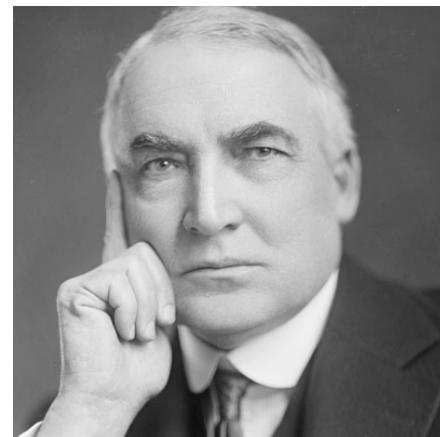


Harding

- Andrew Mellon (Treasury) – Plan: ↓ spending, ↓ taxes on rich = “*trickle down economics*”
- Opposed Vets Bonus Bill → veto
- Revenue Act (1921) – tries to execute Mellon plan → falls short
- Fordney-McCumber Act (1922) – protectionism → stopped outflow of US capital, hurt foreign trade
- Supported “**Yellow Dog**” Contracts; injunctions against labor
- Loans to help farmers to relieve mortgage burden → failed → Low prices and low revenues



Mellon

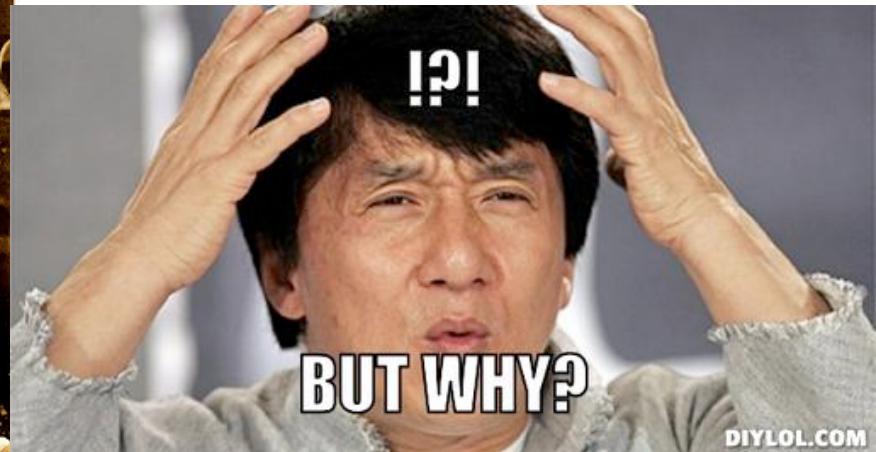


Harding Thinking
...But about what?



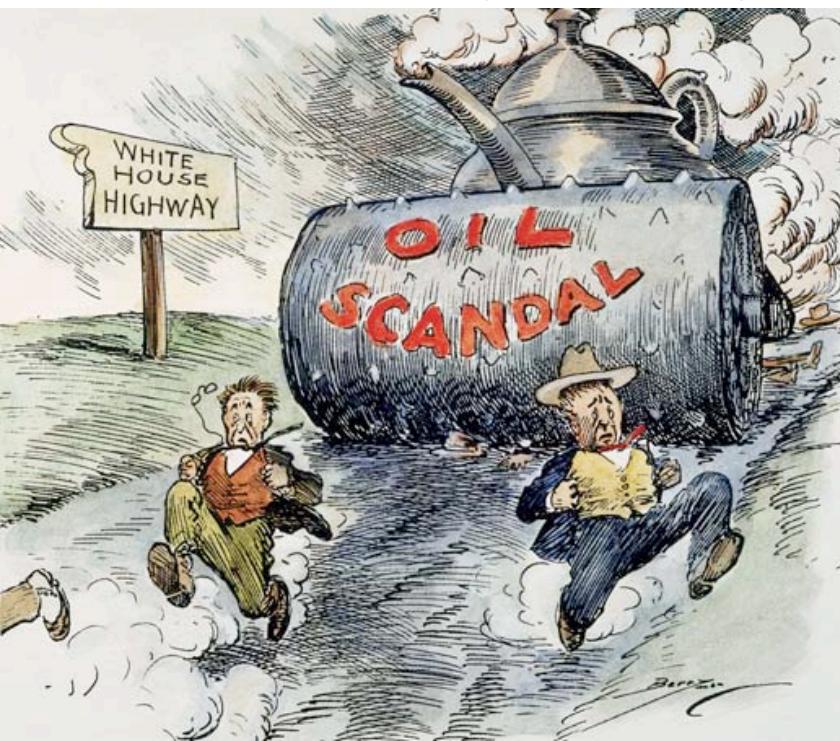
Courts

- Bailey v. Drexel Furniture (1922) – Child Labor law unconstitutional
- Addams v. Children's Hospital (1923) – Minimum wage for women unconstitutional



Personal

- Not exactly a moral man
- **Teapot Dome Scandal** (1921) – transferred oil reserves in CA to WY → Sec. of Int. Fall sold them to private companies → caught, went to jail.
- *Murdered by his wife in Alaska?*

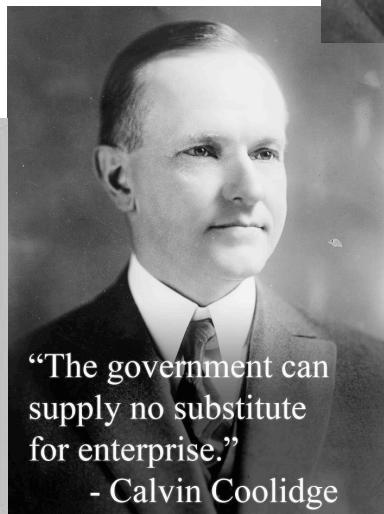


Silent Cal

- “Business of America is business.”
- Prosperity of ’20s → his l-f doctrine widely accepted
- Encouraged investment
 - Grow national market
 - Permissive government
 - Tax reductions
 - Restrictions on labor → surplus of labor



"I want the people of America to be able to work less for the government and more for themselves. I want them to have the rewards of their own industry. **This is the chief meaning of freedom.**"



“The government can supply no substitute for enterprise.”

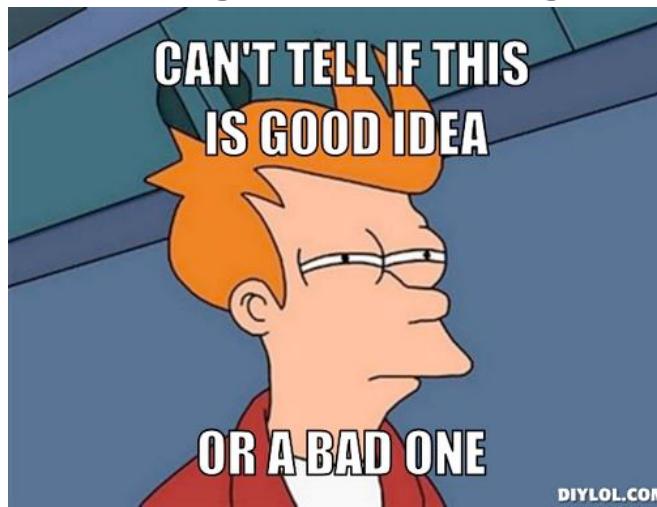
- Calvin Coolidge



**Don't expect
to build up
the weak by
pulling down
the strong.**
calvin coolidge
sayingsplus.com

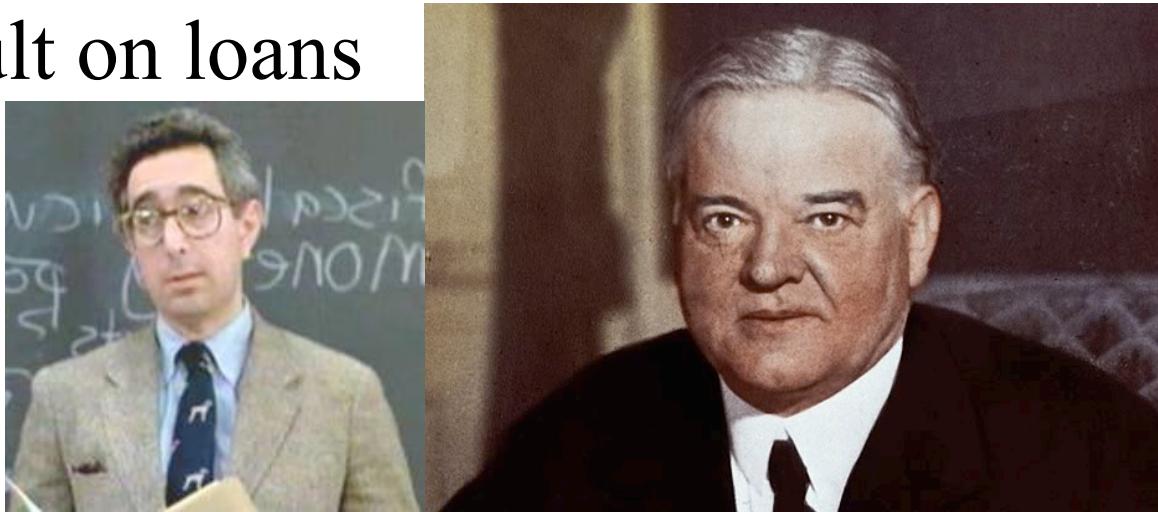
Boom!

- Corporate investment up (lower corp. tax rates)
- Buying on margin encouraged → inflation (\$4B in “broker’s loans” by 1927)
- Speculators ruled market → riskier
- Fed → didn’t respond by raising IR as they should’ve
- Revenue Act (1926) – cut estate and income tax $\frac{1}{2}$
- McNary-Haugen Bill (1927-28) – buy from surpluses → vetoed because he thought US might be accused of **price fixing** abroad.



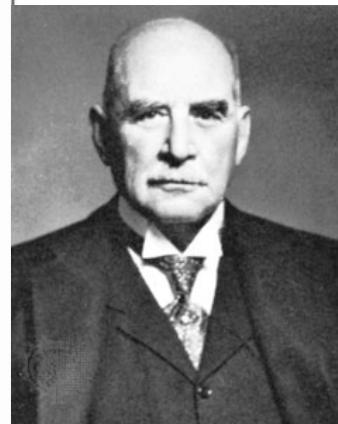
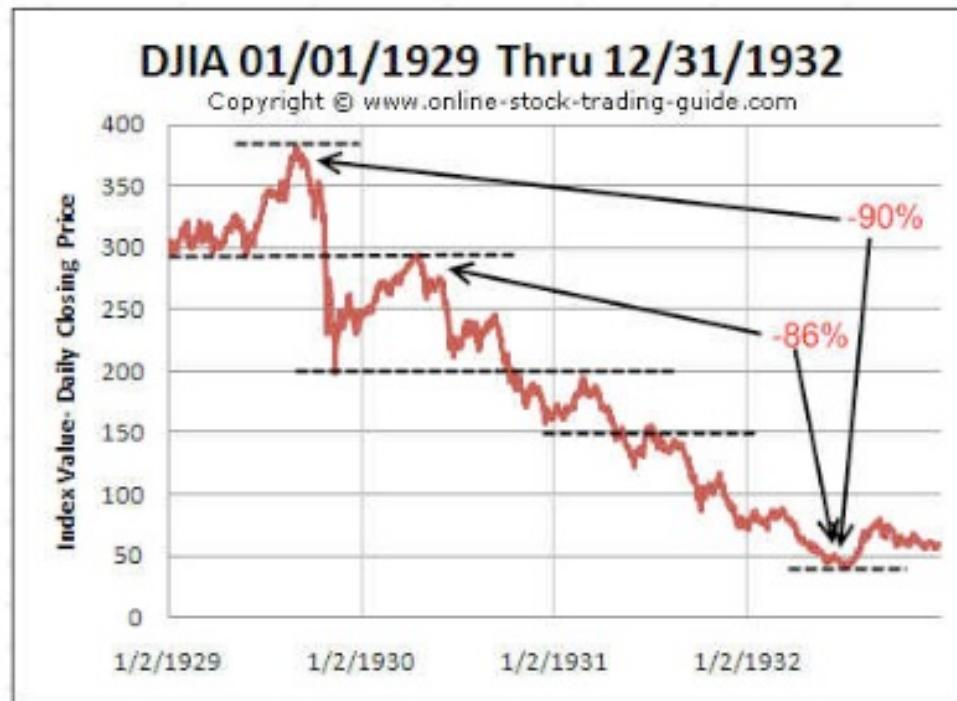
Not the Vacuum Guy

- Agricultural Marketing Act (1929) – Farm Board created → make loans to co-ops, control surplus
- Good Neighbor Policy (1930) – refrain from LA intervention → repudiated Roosevelt Corollary
- Hawley-Smoot Tariff (1930) – 40% tariff (highest)
- Lausanne Conference (1932) – UK/FRA agree to reduce GER reparations if US forgives debt → Nope. → default on loans



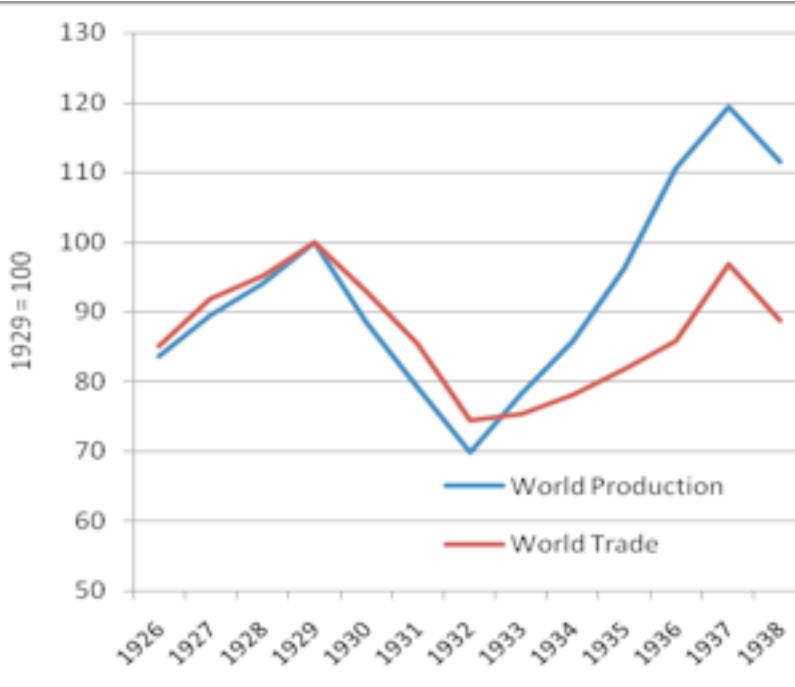
Tick...Tick...CRASH!

- June-Aug, 1929 – Fed ↑ IR → speculation goes on
- Consumer spending, industry, construction ↓, but stocks ↑
- 10/24 – Securities fall → Morgan & others bail out
- 10/29 – Black Tuesday



Causes

- Unbalanced income distribution
- Inflated profits for corps → reckless speculation
- Undisciplined banking system
- L-F gov didn't regulate system
- World in debt → no int'l trade



H I N D S I G H T

Those really were the droids you were looking for.

Phase I: Depression Hard

- 1929-30 – Hoover urges Big Business to keep wages high → nope.
- Hawley-Smoot, Tax cuts for wealthy, no stimulus for desire to balance budget → kept inflation low, but...
- Investment ↓ 90%, 100K businesses & 4K banks FAIL.



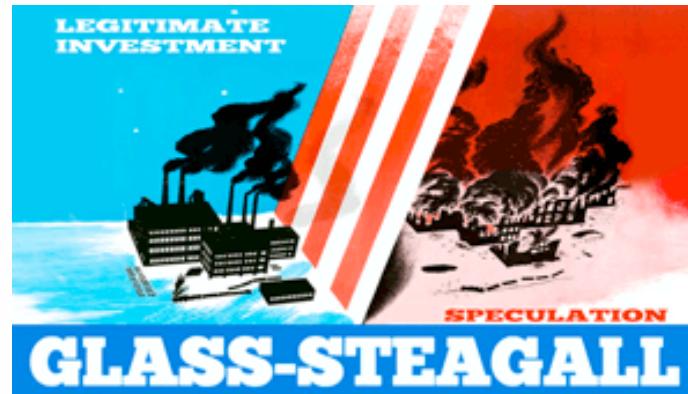
Phase II: Depression Harder

- 1930-31 – Relief Discrimination @ local level
- Rugged Individualism!
- Financial panic in EUR made it WORSE → Hoover blames EUR for everything → moratorium → UK drops gold standard



Phase III: Depression w/ a Vengeance

- 1932 – Hoover wanted to stay on **gold standard**
- Federal intervention
 - Fed gives banks \$ to loan
 - Glass-Steagall Act – Give gold to EUR to stop them from turning USD into gold → US hurt b/c they still needed that gold for bank loan program.
 - Reconstruction Finance Corp – Lend \$ to banks and insurance cos. → more bank debt, dems question selection process for relief → bank bailout



Bonus Army Riot (1932)

- 15K WWI vets wanted 2nd half of pension payment → congress refused
- 2K stayed in DC to protest → Hoover sends MacArthur, Patton, Eisenhower lead cavalry and infantry to remove protestors → 2 police wounded, 2 vets killed.

