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The Great Depression

I. Introduction

The wonder of the stock market permeated popular culture in the 1920s. Although it was released during the first year of the Great Depression, the 1930 film *High Society Blues* captured the speculative hope and prosperity of the previous decade. "I'm in the Market for You," a popular musical number from the film, even used the stock market as a metaphor for love: *You're going up, up, up in my estimation / I want a thousand shares of your caresses, too / We'll count the hugs and kisses / When dividends are due / 'Cause I'm in the market for you*. But just as the song was being recorded in 1929, the stock market reached the apex of its swift climb, crashed, and brought an abrupt end to the seeming prosperity of the Roaring Twenties. The Great Depression had arrived.

In this famous 1936 photograph by Dorothea Lange, a destitute, thirty-two-year-old mother of seven captures the agonies of the Great Depression. Library of Congress.

II. The Origins of the Great Depression

On Thursday, October 24, 1929, stock market prices suddenly plummeted. Ten billion dollars in investments (roughly equivalent to about $100 billion today) disappeared in a matter of hours. Panicked selling set in, stock values sank to sudden lows, and stunned investors crowded the New York Stock Exchange demanding answers. Leading bankers met privately at the offices of J. P. Morgan and raised millions in personal and institutional contributions to halt the slide. They marched across the street and ceremoniously bought stocks at inflated prices. The market temporarily stabilized but fears spread over the weekend and the following week frightened investors dumped their portfolios to avoid further losses. On October 29, Black Tuesday, the stock market began its long precipitous fall. Stock values evaporated. Shares of U.S. Steel dropped from $262 to $22. General Motors stock fell from $73 a share to $8. Four fifths of J. D. Rockefeller's fortune—the greatest in American history—vanished.

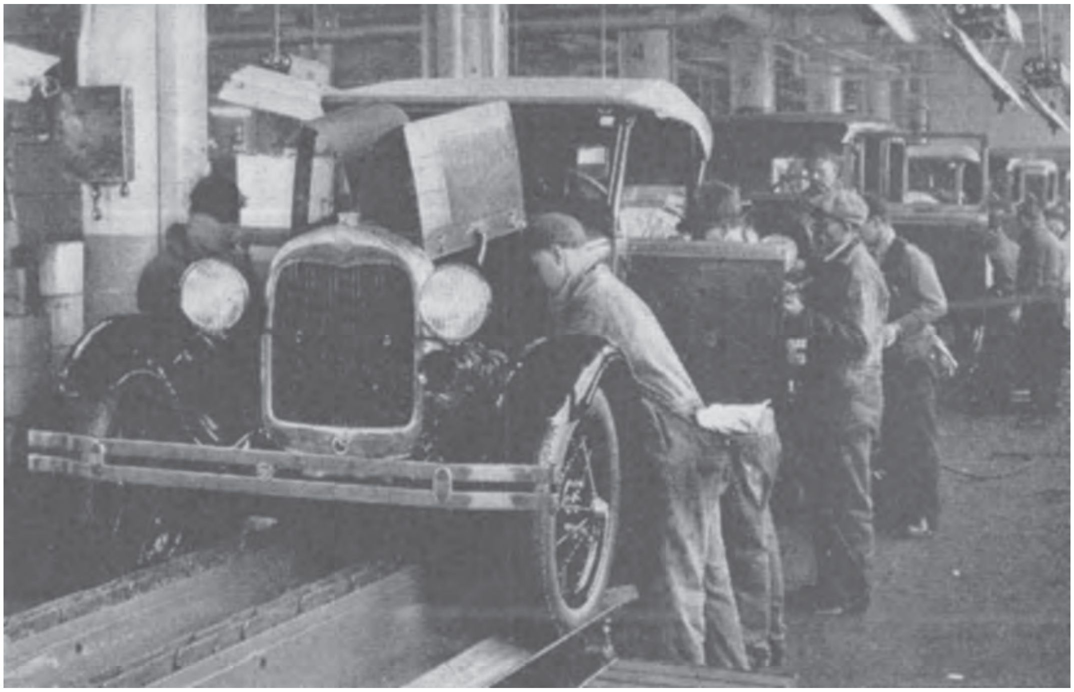
Crowds gather outside the New York Stock Exchange following the crash of 1929. Library of Congress.

Although the crash stunned the nation, it exposed the deeper, underlying problems with the American economy in the 1920s. The stock market's popularity grew throughout the decade, but only 2.5 percent of Americans had brokerage accounts; the overwhelming majority of Americans had no direct personal stake in Wall Street. The stock market's collapse, no matter how dramatic, did not by itself depress the American economy. Instead, the crash exposed a great number of factors that, when combined with the financial panic, sank the American economy into the greatest of all economic crises. Rising inequality, declining demand, rural collapse, overextended investors, and the bursting of speculative bubbles all conspired to plunge the nation into the Great Depression.

Despite resistance by Progressives, the vast gap between rich and poor accelerated throughout the early twentieth century. In the aggregate, Americans were better off in 1929 than in 1920. Per capita income had risen 10 percent for all Americans, but 75 percent for the nation's wealthiest citizens.[1] The return of conservative politics in the 1920s reinforced federal fiscal policies that exacerbated the divide: low corporate and personal taxes, easy credit, and depressed interest rates overwhelmingly favored wealthy investors who, flush with cash, spent their money on luxury goods and speculative investments in the rapidly rising stock market.

The pro-business policies of the 1920s were designed for an American economy built on the production and consumption of durable goods. Yet by the late 1920s, much of the market was saturated. The boom of automobile manufacturing, the great driver of the American economy in the 1920s, slowed as fewer and fewer Americans with the means to purchase a car had not already done so. More and more, the well-to-do had no need for the new automobiles, radios, and other consumer goods that fueled gross domestic product (GDP) growth in the 1920s. When products failed to sell, inventories piled up, manufacturers scaled back production, and companies fired workers, stripping potential consumers of cash, blunting demand for consumer goods, and replicating the downward economic cycle. The situation was only compounded by increased automation and rising efficiency in American factories. Despite impressive overall growth throughout the 1920s, unemployment hovered around 7 percent throughout the decade, suppressing purchasing power for a great swath of potential consumers.[2]

For American farmers, meanwhile, hard times began long before the markets crashed. In 1920 and 1921, after several years of larger-than-



While a manufacturing innovation, Henry Ford's assembly line produced so many cars that it flooded the automobile market in the 1920s. Wikimedia.

average profits, farm prices in the South and West continued their long decline, plummeting as production climbed and domestic and international demand for cotton, foodstuffs, and other agricultural products stalled. Widespread soil exhaustion on western farms only compounded the problem. Farmers found themselves unable to make payments on loans taken out during the good years, and banks in agricultural areas tightened credit in response. By 1929, farm families were overextended, in no shape to make up for declining consumption, and in a precarious economic position even before the Depression wrecked the global economy.[3]

Despite serious foundational problems in the industrial and agricultural economy, most Americans in 1929 and 1930 still believed the economy would bounce back. In 1930, amid one of the Depression's many false hopes, President Herbert Hoover reassured an audience that "the depression is over."[4] But the president was not simply guilty of false optimism. Hoover made many mistakes. During his 1928 election campaign, Hoover promoted higher tariffs as a means for encouraging domestic consumption and protecting American farmers from foreign competition. Spurred by the ongoing agricultural depression, Hoover signed into law the highest tariff in American history, the Smoot-Hawley Tariff of 1930, just as global markets began to crumble. Other countries responded in kind, tariff walls rose across the globe, and international trade ground to a halt. Between 1929 and 1932, international trade dropped from $36 billion to only $12 billion. American exports fell by 78 percent. Combined with overproduction and declining domestic consumption, the tariff exacerbated the world's economic collapse.[5]

But beyond structural flaws, speculative bubbles, and destructive protectionism, the final contributing element of the Great Depression was a quintessentially human one: panic. The frantic reaction to the market's fall aggravated the economy's other many failings. More economic policies backfired. The Federal Reserve overcorrected in their response to speculation by raising interest rates and tightening credit. Across the country, banks denied loans and called in debts. Their patrons, afraid that reactionary policies meant further financial trouble, rushed to withdraw money before institutions could close their doors, ensuring their fate. Such bank runs were not uncommon in the 1920s, but in 1930, with the economy worsening and panic from the crash accelerating, 1,352 banks failed. In 1932, nearly 2,300 banks collapsed, taking personal deposits, savings, and credit with them.[6]

The Great Depression was the confluence of many problems, most of which had begun during a time of unprecedented economic growth. Fiscal policies of the Republican "business presidents" undoubtedly widened the gap between rich and poor and fostered a standoff over international trade, but such policies were widely popular and, for much of the decade, widely seen as a source of the decade's explosive growth. With fortunes to be won and standards of living to maintain, few Americans had the foresight or wherewithal to repudiate an age of easy credit, rampant consumerism, and wild speculation. Instead, as the Depression worked its way across the United States, Americans hoped to weather the economic storm as best they could, waiting for some form of relief, any answer to the ever-mounting economic collapse that strangled so many Americans' lives.

III. Herbert Hoover and the Politics of the Depression

As the Depression spread, public blame settled on President Herbert Hoover and the conservative politics of the Republican Party. But Hoover was as much victim as perpetrator, a man who had the misfortune of becoming a visible symbol for large invisible forces. In 1928 Hoover had

Unemployed men queued outside a depression soup kitchen opened in Chicago by Al Capone, February 1931. Wikimedia.

no reason to believe that his presidency would be any different than that of his predecessor, Calvin Coolidge, whose time in office was marked by relative government inaction, seemingly rampant prosperity, and high approval ratings.

Coolidge had decided not to seek a second term in 1928. A man of few words, "Silent Cal" publicized this decision by handing a scrap of paper to a reporter that simply read: "I do not choose to run for president in 1928." The race therefore became a contest between the Democratic governor of New York, Al Smith, whose Catholic faith and immigrant background aroused nativist suspicions and whose connections to Tammany Hall and anti-Prohibition politics offended reformers, and the Republican candidate, Herbert Hoover, whose all-American, Midwestern, Protestant background and managerial prowess during World War I endeared him to American voters.[7]

Hoover epitomized the "self-made man." Orphaned at age nine, he was raised by a strict Quaker uncle on the West Coast. He graduated from

Stanford University in 1895 and worked as an engineer for several multinational mining companies. He became a household name during World War I when he oversaw voluntary rationing as the head of the U.S. Food Administration and, after the armistice, served as the director-general of the American Relief Association in Europe. Hoover's reputation for humanitarian service and problem solving translated into popular support, even as the public soured on Wilson's Progressive activism. Hoover was one of the few politicians whose career benefited from wartime public service. After the war both the Democratic and Republican parties tried to draft him to run for president in 1920.[8]

Hoover declined to run in 1920 and 1924. He served instead as secretary of commerce under both Harding and Coolidge, taking an active role in all aspects of government. In 1928, he seemed the natural successor to Coolidge. Politically, aside from the issue of Prohibition (he was a "dry," Smith a "wet"), Hoover's platform differed very little from Smith's, leaving little to discuss during the campaign except personality and religion. Both benefited Hoover. Smith's background engendered opposition from otherwise solid Democratic states, especially in the South, where his Catholic, ethnic, urban, and anti-Prohibition background were anathema. His popularity among urban ethnic voters counted for little. Several southern states, in part owing to the work of itinerant evangelical politicking, voted Republican for the first time since Reconstruction. Hoover won in a landslide, taking nearly 60 percent of the popular vote.[9]

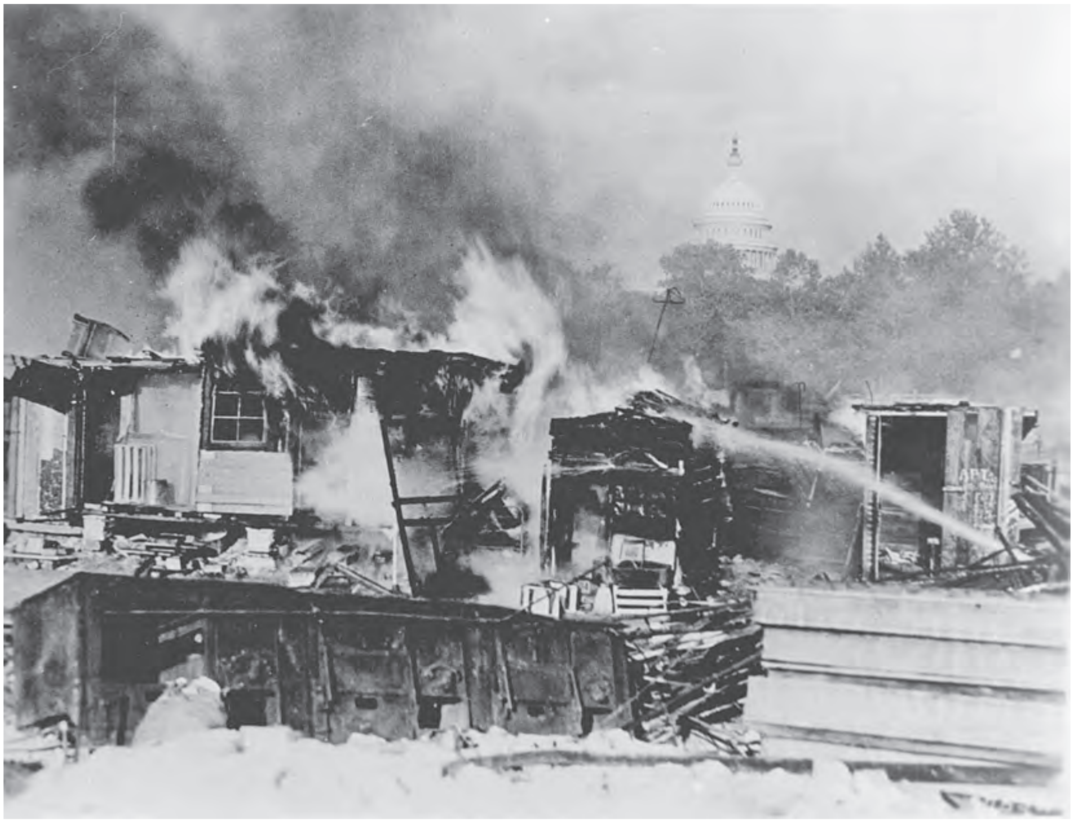
Although Hoover is sometimes categorized as a "business president" in line with his Republican predecessors, he also embraced an inherent business progressivism, a system of voluntary action called *associationalism* that assumed Americans could maintain a web of voluntary cooperative organizations dedicated to providing economic assistance and services to those in need. Businesses, the thinking went, would willingly limit harmful practice for the greater economic good. To Hoover, direct government aid would discourage a healthy work ethic while associationalism would encourage the self-control and self-initiative that fueled economic growth. But when the Depression exposed the incapacity of such strategies to produce an economic recovery, Hoover proved insufficiently flexible to recognize the limits of his ideology. And when the ideology failed, so too did his presidency.[10]

Hoover entered office on a wave of popular support, but by October 1929 the economic collapse had overwhelmed his presidency. Like all too many Americans, Hoover and his advisors assumed—or perhaps simply hoped—that the sharp financial and economic decline was a temporary downturn, another "bust" of the inevitable boom-bust cycles that stretched back through America's commercial history. Many economists argued that periodic busts culled weak firms and paved the way for future growth. And so when suffering Americans looked to Hoover for help, Hoover could only answer with volunteerism. He *asked* business leaders to promise to maintain investments and employment and *encouraged* state and local charities to assist those in need. Hoover established the President's Organization for Unemployment Relief, or POUR, to help organize the efforts of private agencies. While POUR urged charitable giving, charitable relief organizations were overwhelmed by the growing needs of the many multiplying unemployed, underfed, and unhoused Americans. By mid-1932, for instance, a quarter of all of New York's private charities closed: they had simply run out of money. In Atlanta, solvent relief charities could only provide $1.30 per week to needy families. The size and scope of the Depression overpowered the radically insufficient capacity of private volunteer organizations to mediate the crisis.[11]

By 1932, with the economy long since stagnant and a reelection campaign looming, Hoover, hoping to stimulate American industry, created the Reconstruction Finance Corporation (RFC) to provide emergency loans to banks, building-and-loan societies, railroads, and other private industries. It was radical in its use of direct government aid and out of character for the normally laissez-faire Hoover, but it also bypassed needy Americans to bolster industrial and financial interests. New York congressman Fiorello LaGuardia, who later served as mayor of New York City, captured public sentiment when he denounced the RFC as a "millionaire's dole."[12]

IV. The Bonus Army

Hoover's reaction to a major public protest sealed his legacy. In the summer of 1932, Congress debated a bill authorizing immediate payment of long-promised cash bonuses to veterans of World War I, originally scheduled to be paid out in 1945. Given the economic hardships facing the country, the bonus came to symbolize government relief for the most deserving recipients, and from across the country more than fifteen thousand unemployed veterans and their families converged on Washington, D.C. They erected a tent city across the Potomac River in Anacostia



Shacks, put up by the Bonus Army on the Anacostia flats, Washington, D.C., burning after the battle with the military. The Capitol in the background. 1932. Wikimedia.

Flats, a “Hooverville” in the spirit of the camps of homeless and unemployed Americans then appearing in American cities.

Concerned with what immediate payment would do to the federal budget, Hoover opposed the bill, which was eventually voted down by the Senate. While most of the “Bonus Army” left Washington in defeat, many stayed to press their case. Hoover called the remaining veterans “insurrectionists” and ordered them to leave. When thousands failed to heed the vacation order, General Douglas MacArthur, accompanied by local police, infantry, cavalry, tanks, and a machine gun squadron, stormed the tent city and routed the Bonus Army. National media covered the disaster as troops chased down men and women, tear-gassed children, and torched the shantytown.[13]

Hoover’s insensitivity toward suffering Americans, his unwillingness to address widespread economic problems, and his repeated platitudes about returning prosperity condemned his presidency. Hoover of course was not responsible for the Depression, not personally. But neither he nor his advisors conceived of the enormity of the crisis, a crisis his conservative ideology could neither accommodate nor address. As a result, Americans found little relief from Washington. They were on their own.

V. The Lived Experience of the Great Depression

In 1934 a woman from Humboldt County, California, wrote to First Lady Eleanor Roosevelt seeking a job for her husband, a surveyor, who had been out of work for nearly two years. The pair had survived on the meager income she received from working at the county courthouse. "My salary could keep us going," she explained, "but—I am to have a baby." The family needed temporary help, and, she explained, "after that I can go back to work and we can work out our own salvation. But to have this baby come to a home full of worry and despair, with no money for the things it needs, is not fair. It needs and deserves a happy start in life."[14]

As the United States slid ever deeper into the Great Depression, such tragic scenes played out time and time again. Individuals, families, and

A Hooverville in Seattle, Washington, between 1932 and 1937. Washington State Archives.