

Lecture 2.11: Great Depression and the New Deal

- Signs of fragility (keep in mind) → people vulnerable to economic recession/fluctuation

Great Depression:

- Doesn't happen overnight, but quick start at end of 20s with what is now known as "Black Tuesday" → oct 29, 1929
 - Day that stock market crashes (stock market is where people buy partial ownership of companies)
 - Stock market relatively new bc it is tied to corps
 - Stock market great for people as long as stock market is doing well
- But also Stock market manipulation
 - Encouraging buying stocks as a form of investment
 - One of the ways that people do this is called "on margin"
 - Borrowing money to buy stocks, with the assumption that when the stocks gain value, they can pay it back
 - Banking on something happening
 - Only 2.5% of Americans actually doing this (middle/upper class), as only a small portion of the population has savings
 - Causes problems
 - This only works if the economy keeps growing
- BUTT...black Tuesday happens, lots of global events converge to cause people to become afraid → They start selling off their stocks
 - If I want to keep my money, I don't want my money invested in corporations
 - Everybody selling
 - When we panic sell, there is a flood of stocks on the market, this drives the price of stocks way way down (high supply and low demand) → immediate drop of stock value, prices free fall
 - All those people who borrowed to buy those stocks suddenly can't pay back their loans (they were banking on stocks)
 - So what happens? People default on their loans, Banks have to take the loss bc lots and lots of people can't pay back their loans
 - THEN...everybody who is worried about something → before you close, I want my money from the bank → the bank doesn't have everybody's money! They don't keep all of it in the bank!
 - Banks have to close → THEN... all the businesses fail bc they have to borrow money to pay for things
 - End up with massive waves of bank failures, business failures, 20% of people who had savings get wiped out in a day (not literally, but black Tuesday sparked chain of events and has longer impact over time)
- This is the start of the great depression

Pres, Herbert Hoover, 1929-33:

- Last of republican "return to normalcy"
- Wins the 1928 election
- Has the bad luck to be the pres when this happened

- Has very firm belief in “rugged individualism”
 - Idea that people should be able to take care of themselves
 - R believed in gov not interfering → just says you should work hard and get through it
 - Doesn’t want to step in
 - Businesses, charities should step in
- Does make a few efforts to mitigate problems of depression
 - Not completely individualism
 - Convinced congress to lower income tax
 - Does allocate 423 mil dollars for public works projects → creating jobs
 - Doesn’t want to do anymore than this
 - Mostly because he doesn’t want a “deficit” → doesn’t want gov. to spend more money than they have → no further action
 - Neither of these things is enough → Losing jobs, farms, homes, savings → homelessness, people don’t like hoover (his bad luck for being pres at this time)
 - All the homeless encampments developing are called “Hooverilles” → hoover taking the blame/disgruntlement of the people
 - He won by a lot, but he is unlucky, everybody hates him
- Growing unpopularity made it relatively easy for dems to win next election

FDR and the New Deal:

- People pissed off at hoover, bail to dems in alarming numbers
- 1932 election campaign → FDR proposed “new deal” to address problems of depression
 - Runs on this campaign slogan
- Promise feels a lot better than hoover’s “rugged individualism”
- FDR says he’s going to take action, people like this, more hopeful
- Landslide 1932 election → dems win FDR, 1933-45
- Dems gain control of House AND Senate
- They have control of legislative and executive branch → don’t have to worry about veto, pres doesn’t have to worry about congress stopping him → FDER has lot of ability to make things happen
- One of the things: Fireside Chats
 - Starts communicating with people
 - Radio broadcasts where he sits down and talks to the public
 - Tells them what’s going down, what he’s doing
 - People feel like they’re being heard, that FDR is actually looking out for them, much better than Hoover
 - Does this through his 4 terms of presidency
- New deal:
 - Ending depression was big enough a problem that he had to leverage the power of the federal gov.
 - Need gov action as opposed to gov being hands off
 - Because he has democratic congress → this is easier for him
 - In first 100 days of presidency, he passes all kinds of new legislation

Two amendments passed during New Deal era:

- 20th amendment: passed in Jan
 - From first Tuesday of nov to march, old president still president (Lame Duck period) → had to pass legislation, people won't cooperate
 - Congress, also elected in nov, don't take office until December of the NEXT YEAR
 - People decided that this is really dumb bc they just voted those people out, pres doesn't need 5 months more of office
 - 20th amendment gets rid of Lame Duck period and moves inauguration from March to Jan 20th
 - Congress → shifted from next December to immediate Jan 3rd
 - Makes gov more accountable to the people, more effective for the people, let's get things moving
 - Shrinking down lame duck period
- 21st Amendment: repeals 18th amendment
 - Ending prohibition
 - Couple practical reasons:
 - If alcohol is regulated and public and legal, the gov can TAX it → make money for the gov!
 - Other part: gov spending ton of time and energy regulating NOT selling alcohol
 - Adding income and lessening expenditures on enforcement that's not effective
 - During FDR first term (both)

New Deal:

- Financial reforms!! Category (all in 1933, first 100 days of presidency)
 - Emergency banking relief Act
 - Closes down banks that aren't already closed
 - Presses pause on any financial transaction
 - FDR Only allowing "healthy banks" to reopen
 - Bank has to have money to manage their own affairs, only these are allowed to open back up
 - Glass-Steagall Act
 - Creates the Federal Deposit Insurance Corp
 - Ensures people's savings in banks!
 - If you put money in FDIC insured bank → up to a certain amount of money the federal gov. will ensure that you get that amount if the bank closes
 - People need to be able to trust banks, don't want to lose all their money again
 - This still exists → want your money to be managed wisely by banks
 - Gives people more faith in banks bc they are FDIC insured
 - Federal Securities Act
 - All the messing around with stock market, need companies to give accurate stock info so people can make good decisions
 - Creates Securities and Exchange Commission

- Job is to regulate the stock market
- Businesses and people are not manipulating stock market to cause problems like in the past
- Making stock market more reliable, less likely to have another crash

New deal:

- Economic Recovery! Designed to create jobs and support workers
 - Agricultural Adjustment Act
 - Paid farmers NOT to plant crops bc price of crops is already so low → lead farmers taken off their tenants bc they can't plant anything
 - Farming is one industry where more of the product does not help
 - Public Works Administration
 - Designed to create public projects like roads, dams, hospital etc
 - Now have jobs to give people, the thing that they are building will benefit people longer term
 - Civilian Conservation Corps
 - Most young white men being provided jobs to do these things (employed by federal gov)
 - Big era of electrification too to more rural areas as well
 - National Industrial Recovery Act
 - Designed to spread the work around
 - Only got so much work, tons of unemployment (up to 30%)
 - Make people work less hours!
 - NIRA starts regulating hours, working conditions, and pay! Just like progressives were asking for, but for a different reason
 - Set up National Recovery Administration
 - First federal minimum wages!
 - Limiting hours
 - Better for more people to have jobs with lower pay than less people with more pay

New Deal:

- Direct relief! Working with individual people
 - Federal emergency relief administration
 - Feed and clothe people
 - No longer relying on charities
 - Gov. providing support
 - Home owners Loan Corporation:
 - Provides loans to people to be able to pay mortgage so that they can keep their house
 - Keeping people in their homes helps minimize problems of GD
 - Federal Housing Admin
 - Insures home mortgage loans
 - So that they will pay part of your mortgage if you can't so that banks don't close
 - Banks more willing to give out loans bc less likely they will close

- The start of Redlining → evaluating neighborhoods for qualification → which NBs to lend money to, which ones not to (tend to be minority, low income NBs)

Reactions to the New Deal:

- Given R supply side economics, they are not fans of this
 - See this as huge expansion of gov power
 - They oppose ND programs
- SCOTUS overturns AAA and NIRA
- Rs and SCOTUS opposing things is balanced out by next two elections
- 1934 midterms → widespread support for Dems, gain more majority in congress than they had before
- Based on New Deal coalition → shift in democratic party (alliance with labor movements, ethnic minorities, black voters, poor farmers)
 - Black voters had voted R consistently, but now shifting to vote for Ds
 - Black voters moving to D party
- Democratic party is doing much more now, realignment of politics

Second new deal:

- FDR wanted to ensure new deal would continue even if he lost next election
- He and the Democrats embark on second wave of legislation (2nd new deal)
 - Still during his first term (1935-36)
- Big programs that come out of this:
- Works Progress Administration
 - Goal is to create jobs
 - Through construction of airports, libraries, schools
 - Also employs a bunch of scholars and artists to gather cultural works across the US
 - Where we get first oral histories of former enslaved people (people paid by the gov to interview them)
 - Music, folklore, murals
 - Federal Writers Project is an ex.
 - Not factory workers, but how can we employ them still
- Social Security Act
 - One of most important long term thing
 - Goal was to provide relief for the elderly (people who weren't employed and couldn't work but still needed to live)
 - Adds pay roll tax for employers and employees that is put towards supporting elderly, unemployed people
 - This still exists now
 - Increased gov influence (Adding another tax)
- National Labor Relations Act (Wagner Act)
 - Protects workers' rights to organize
 - Legalizing unions and striking
 - Been fighting about that for last 50 years before this
- This and new deal coalition ensure that FDR wins landslide election (again)

- Ended era of republican dominated presidencies that has existed since CV
- Fair labor standards Act, 1938
 - Formal establishment of federal minimum wage
 - Establishes 40 hour work week

A Half Deal?

- This phrase is coined by racial and ethnic minorities
- They feel like we're getting SOME things out of new deal, but a lot of the programs aren't addressing our core issues
- Indigenous people → positive was Indian Reorganization Act, 1934 that terminated the Dawes Act
 - Means that NA regain self gov. and theoretically gov. pledges to hold up NA culture customs
 - Problem → Bureau of Indian affairs doesn't really understand NA customs, NA groups feel frustrated and ignored bc they are very diverse
- Black cabinet
 - FDR goes out of his way to reach out to black voters
 - Gathers black leaders (black cabinet) → who FDR asks for advice on how to help black people/communities
 - Pretty big step for black people
 - Part of the shift in black voter affiliation from R to D
 - But, just like with NA, a lot of black people say that ND policies don't actually address their problems
 - Haven't addressed segregation, haven't focused on jobs/industries with more black workers
 - Making some effort, but its just not enough

Other ND Criticisms:

- How do you pay for the ND policies?
- If you raise a whole lot of taxes during depression, it's just going to hurt people who can't pay
- And they aren't going to keep voting for you
- What FDR does → he spends money the gov doesn't have (deficit spending)
 - People viewed this as highly irresponsible
 - Deficit spending is not good long term
 - Big criticism
- Another criticism: expansion of federal gov. power
 - All of these laws are letting gov.. have more control over businesses, economy, people
 - People have always been arguing about how much power gov should have
- 1937 Recession
 - People decide things seem to be going well, FDR cuts his spending
 - But depression isn't over so unemployment increasing so we essentially enter a recession within a depression
- Court Packing

- FDR gets frustrated over SC overturning his legislation
- So he wants to add 6 members to the SC and make it 15 justices (so SC won't overturn his legislation anymore)
- People are like overstep of executive power, unhappy
- People not even opponents of ND are alarmed
- Southern democrats abandoning ND coalition
- Kind of marks the end of the ND
- Depression isn't really solved as no ND legislation is passed after this