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 “Hoovervilles” 🡪 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 provlem 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 the 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