Handout 9, Hist. 261, Prof. Mogren

I. Hoover's Problem

The Depression hit seven months after Hoover became president. He appeared able to deal with trouble, but failed. Hoover became the most hated man in America. It was unfair. He was not insensitive. Hoover was one of the greatest humanitarians in the world because for his superb organization of relief efforts in post©war Europe.

Private charity (ethnic and religious charities), once responsible for most welfare, were bankrupt by 1930.

The urban destitute depleted city relief funds. Cities faced a two-edged problem: the urban needy were draining revenues, but at the same time property values fell and businesses failed, depriving cities of tax revenues at the time that they needed them most. Scores of cities went bankrupt.

Cities turned to the states for help, but many states were near bankruptcy even before the Depression. The shrinking tax base also affected the states.

II. Hoover's Relief

Hoover's plan rested on his commitment to voluntary action, his faith in capitalism, and his belief that too much government action threatened freedom and private initiative. His program was also based on two inaccurate assumptions: that the Depression was a temporary economic correction; and it was the result of failing European economies.

Hoover secured pledges from business leaders to maintain jobs, prices, and wages. He also tired to indirectly encourage private investment through a tax. He created a presidential commission to encourage relief activity.

He created the Federal Farm Board to boost agricultural prices by promoting the sale of commodities through farm cooperatives and thereby keep the surpluses off the market. Hoover arranged for loans to farmers.

Hoover agreed to a high tariff. He declared a moratorium on the payment of Allied war debts, giving Europeans a break from their debts. Hoover also tried the "prime the pump" of the economy and reduce unemployment by sponsoring public building projects.

Nothing worked. Employers tried to keep their pledges, but were forced to cut wages and fire workers. The tax cut was followed by a tax increases when the public works put the federal budget out of balance. The Federal Farm Board was never designed to stop the collapse of agriculture -- it failed to address over-production, the heart of the agricultural problem. The high tariff brought a wave of tariff retaliation that choked off world trade at the very time that American industry needed international markets to unload their surpluses. The public works program was too small to stimulate recovery.

Hoover was more successful at saving banks. He created the Reconstruction Finance Corporation (RFC) to lend money to failing banks, insurance companies and railroads. The Federal Reserve issued new federal bonds to increase the amount of currency to ease the credit problem.

Hoover opposed direct federal unemployment relief. He feared that a it would damage the character of the recipients, create a permanent underclass, and create a new bureaucracy susceptible to corruption and waste. But Hoover relented, agreeing to a program of loans for public works that no one expected would be repaid.

Hoover's programs were too little, too slow, and too late.

III. Discontent

Milo Reno's Farmer Holiday Association supported agricultural radicalism.

Four strikers were killed and more than twenty were wounded at Ford's Rouge Assembly Plant in Dearborn when Ford's private police fired on the crowd.

Revolution was never a real danger during the Depression. The Communist Party did not gain many members and lacked popular support. Americans were suspicious of Marxist doctrine, and most Americans were unsympathetic to calls for revolution.

The greatest protest was the Bonus March. In the May 1932, 15,000 war veterans marched to Washington, DC. They wanted to cash their $1000 wartime bonus certificates that had been due to mature in 1945. Hoover refused because veterans' benefits already consumed 25% of the federal budget, and to redeem the certificates would double the deficit. 10,000 vets remained in Washington. The Bonus Army conducted itself peaceably. The few radicals were quickly identified and isolated.

In July, Washington police tried to evict some veterans from buildings, but two men died in the scuffle. Hoover called in the army. What he wanted was unarmed manpower support for the police. Chief of Staff Douglas MacArthur disregarded Hoover's orders and personally led armed troops against the vets. The soldiers cleared the buildings with bayonets. Major George Patton, Jr. road down a crowd of unarmed marchers in the last calvary charge in American history. MacArthur ignored Hoover's direct orders to halt the raid and burned the vets' encampment. 300 vets were wounded. Hoover claimed that the vets were communists and criminals; but 90% were veterans, 70% had served overseas, and 20% were disabled.

The Bonus March destroyed Hoover's credibility. Trapped by his fears of big government and committed to a formula of private initiative and cooperative recovery, Hoover was finished.

IV. Franklin and Eleanor

"I pledge you, I pledge myself, to a new deal for the American people," said FDR, coining the name for his program. Roosevelt's 1932 victory was the worst defeat in Republican party history.

The New Deal unfolded in two bursts of legislative activity, one in the 100 days after the inauguration in 1933, and again during another 100 days in 1935. It pursued three general avenues ©© recovery, relief, and reform. The New Deal created a limited "welfare state" in which the federal government committed itself to maintaining the well-being of the needy.

FDR was a pragmatist who improvised to meet the crisis. Experimentation was common in the New Deal, and FDR's willingness to act, after Hoover's restraint, reassured the nation.

FDR was the son of a patrician New York family, he emulated his cousin's road to political success. He married Teddy's niece Eleanor, a woman of fantastic energy and devotion to social justice. In 1921 he contracted polio that paralyzed him below the waist. He emerged from the ordeal with greater patience, deeper conviction, and more sympathy with unfortunate people.

FDR was a natural leader who loved power. He had a quick but superficial mind. He was a fiscal conservative but a social reformer. He had common sense, followed no ideology, and cared little about political principles. He was a master of public relations. He reached out to Americans with "fireside chats," homely radio speeches that made Americans believe that he was looking out for their personal interests.

Perhaps his greatest asset was his wife Eleanor. More than preceding first ladies, she used her position to help society's underdogs. Energetic, cool under fire, but with a burning passion for justice, she became FDR's eyes, ears, and legs. She held her own press conferences and radio programs, and her weekly column appeared in 135 newspapers.

V. Launching the New Deal --Saving the Banks

During the first 100 days of his presidency, FDR launched a record 15 major laws. FDR worked to save capitalism, but recognized that it needed to be modified.

FDR's economic advisors, the "Brains Trust," recognized that the Depression was the result of corporate greed, Republican mismanagement, and failure of consumer purchasing power. The Brains Trust blended Wilson's Progressivism with Hoover's association philosophy to prescribe federal economic planning and intervention to promote recovery and prevent future depressions.

The first step was to save the banks. Most banks did not have assets to cover deposits, and customers were terrified that their banks would fail. The nation needed more currency, but investors were hoarding the gold upon which the currency supply was based.

In the day after his inauguration, FDR ordered banks to stop transactions and closed every bank in the nation for four days. The "bank holiday" ended fears about bank failures. FDR introduced emergency legislation to stabilize the banking system by extending federal assistance. Sound banks reopened with government support, and unsound ones were turned over to federal "conservators" who reorganized the bank's assets and arranged federal loans. Legislation prohibited bankers from speculating in the stock market with depositors' funds. The Federal Deposit Insurance Corporation (FDIC) guaranteed deposits.

The Securities Act of 1933 prohibited insider trading and requiring advance disclosure of any new stocks. The Securities and Exchange Commission (SEC) was created to police the stock market.

V. Relief

The Home Owners' Loan Act helped about 20% of Americans save their homes by refinancing their mortgages.

To keep people from starving, Congress approved the Federal Emergency Relief Administration (FERA) in May 1933. Harry Hopkins began distributing $500 million to states in a matching grants, and the states administered the give-away program to the needy. In its 2 year existence, the FERA dispensed over $1 billion in direct relief. It left critical eligibility decisions to local relief administrators. Poor states, able to put up less matching funds, received less. Other states refused to participate because the relief would go to Blacks as well as Whites.

FDR feared that public assistance might damage the American spirit, so he favored work relief. The Civil Works Administration (CWA) gave jobs to about 4 million people. Wages were not adequate but more than twice direct relief payments. The CWA was also important for boosting morale.

The Civilian Conservation Corps (CCC) was FDR's pet project. It combined his compassion for America's youth with his interest in conservation. The CCC gave young men a place to work and sponsored literacy and vocational training programs.

One of the most awe inspiring of the New Deal programs were the reclamation projects in the South and West. The projects employed people, enhanced the future by creating new sources of hydroelectric power, provided irrigation and navigable waterways, and tamed flood cycles. Moreover, they could pay for themselves.

In the South, the Tennessee Valley Authority (TVA) built over 25 dams on the Tennessee river, boosting the economies of seven southern states and increasing the living standards of the impoverished region.

The greatest reclamation projects were in the west ©© the fourteen states which received the most New Deal aid were all in the west. The government sponsored the construction of Boulder Dam on the Colorado river to generate power and irrigate millions of acres in California. In Colorado, the Colorado-Big Thompson project provided irrigation water by carrying water through a series of tunnels from the western slope of the Rockies to eastern slope lands.

The biggest and most comprehensive western reclamation project was damming the Columbia River -- the northwest was to be America's new industrial heartland.

The first Columbia River Dam is the Bonneville, providing power to Oregon's Willamette Valley and 160 miles of navigable shipping.

The Grand Coulee dam is upstream from the Bonneville ©© Woody Guthry called it "the greatest thing ever built by man." The Grand Coulee focus was on an integrated program of both electric production and regional irrigation projects designed to water 1.3 million acres. It was viewed as a region where displaced farmers could relocate and start fresh.

VI. The Riddle of Recovery

The New Deal never ended the Depression. At first, FDR tried quick fixes. He took the nation off the gold standard, reducing the value of the dollar in order to make American goods cheaper for foreign markets and raise commodity prices at home. He then tried increasing currency by buying silver from western miners. Both schemes failed.

To stimulate industry, the National Industrial Recovery Act (NIRA) created two agencies. The first was the Public Works Administration (PWA), designed to stimulate heavy industry and provide industrial jobs with $3.3 billion in public work projects. The PWA spent money too slowly to jump-start the economy.

The NIRA also established the National Recovery Administration (NRA), to maintain prices, wages, and employment while controlling production and competition. The NRA was a business-government partnership in industrial central planning. Codes of fair practices regulated prices, wages, working hours, production, and outlawed child labor and sweatshops. But big business dominated the code-making, ensuring that the codes favored them at the expense of small producers. To recover the increased wages, they raised prices. Businesses could survive, but without increasing production, there was no incentive to invest or expand ©© the NRA merely perpetuated the hard times. Labor leaders became disillusioned with the NRA's weak support of unions. Ultimately, the Supreme Court ruled it unconstitutional.

Secretary of Agriculture Wallace tried to increase farm prices by reducing supply. Farmers were paid not to plant crops, and the money was to be furnished by a new tax on processors. In theory, the Agricultural Adjustment Act (AAA) would lower surpluses, increase farm prices, and lift the farmers out of the Depression. In practice, it succeeded in raising prices of some commodities. But the AAA was a mixed benefit. Farm prices increased because of bad harvests as much as by the AAA. The AAA failed to distribute benefits equally. In the South, cutting production acreage forced tenant farmers from the land. Farmers reduced their acreage but often increased their yields by more carefully cultivating their smaller allotments.

VII. The Second New Deal

The first New Deal tried to satisfy as many people as possible, and FDR catered to a variety of interests. Organized groups (big business, large farmers, bankers) benefitted most; unorganized groups (sharecroppers, tenants, and the poor) hardly benefitted at all.

In 1935, politics shifted the New Deal focus. Persistent unemployment, fears about the 1936 election, and big business criticism caused FDR to change his tactics. The second New Deal abandoned the government partnership with business, addressed the needs of the dispossessed, and stressed liberal reform.

The voices of protest became persistent and dangerous. Riots and strikes sometimes paralyzed cities. Businessmen accused FDR of favoring labor and farmers. Others charged him with being fascist.

Huey P. Long, a senator from Louisiana, had ridden to power on a wave of rural discontent. His plan was simple: the government would limit the size of fortunes and incomes so that every family could be given an estate of $5000, enough to buy a house, a car, and a radio. There would be a guaranteed annual income of $2500, old age pensions, and subsidized education. He plan was flawed, but he identified a fundamental economic problem ©© the unequal distribution of wealth.

As governor of Louisiana, Long attacked wealthy corporations and aided both Black and White poor. He also controlled the legislature, used his private police to kidnap political opponents, and used his position to become wealthy. Democrats predicted that he could get 3 to 4 million votes if he ran for president, enough to return Republicans to the White House. Long was murdered in the Louisiana statehouse by a disgruntled constituent.

Father Charles Coughlin, Detroit's "Radio Priest," was Long's urban counterpart. His weekly radio message offered listeners a simple explanation for their condition. According to Coughlin, a conspiracy of international bankers had toppled the world economy by manipulating currencies based on gold. Like Long, Coughlin touched on a real problem, the shortage of currency. He promised to end the Depression by nationalizing banks, spreading work, and using silver to inflate currency. He drew on old Populist fears of big eastern capitalists, spewed ugly anti-Semitism rhetoric, and attacked FDR.

The second New Deal created social reform. To help the jobless, FDR proposed work relief. The largest program was the Works Progress Administration (WPA) under the direction of Harry Hopkins. The WPA was not supposed to compete with private industry. Wages averaged about half subsistence levels, but more than dole payments. It was successful, but it never employed everybody who needed work.

The Social Security Act helped the elderly and disabled. It created a national system of old age insurance; a system of unemployment insurance; and a program of aid to dependant mothers and children, the handicapped, and the blind. Social Security had its drawbacks. It was conservative and made small payments, and excluded farmers and domestic workers. But in Social Security the federal government acknowledged, for the first time, the social rights of citizens and its responsibility to protect them.

The National Labor Relations Act created the National Labor Relations Board to supervise union elections and guarantee the rights of workers to bargain collectively.

The federal government exercised tighter took control over the money supply. The Public Utilities Holding Company Act limited the size of public utilities that had produced inflated returns for shareholders and high prices for consumers. The Revenue Tax of 1935 increased taxes on high incomes and inheritances.

The second New Deal, like the first, made no fundamental changes in the American life. The country was still capitalist, still democratic, still opposed to extremism. But within those limits, there were important shifts.

FDR won the 1936 election by a landslide. FDR's victory was possible because more poor Americans voted in 1936 than had voted in 1932, most for FDR. Class replaced region as the dominant element in American politics.

VII. The Waning of the New Dea

In 1936 FDR slashed federal spending on New Deal programs in order to balance the budget, and the economy again collapsed. Conservatives in Congress struck back, gutting several social reform programs. Republicans made strong gains in the 1938 elections, and by late 1938 the New Deal was over.

The New Deal failed to end the Depression. The federal government never spent enough to make up for lost private investment. World War II was the agent of recovery. The New Deal never raised purchasing power high enough for recovery. The wealthy continued to receive such large proportions of the all income that not enough purchasing power remained for the necessary gains in consumption and employment.

The New Deal was part of the Progressive tradition that sought to preserve capitalism, regulate its excesses, and soften its impact. The New Deal made lasting changes. Government assumed an obligation to compensate for swings in the economic cycles. In securities and banking regulation, unemployment insurance, and requirements for minimum wages and limits on hours, the New Deal created economic stabilizers that would prevent a repeat of the Depression. FDR modernized the presidency, turning the White House into the head of government. Americans began to look to the president to make decisions, set the public agenda, spread new ideas and educate the public, initiate legislation, and assume responsibility for the nation.