The American Yawp

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.

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-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.

VII. Franklin Delano Roosevelt and the "First" New Deal

The early years of the Depression were catastrophic. The crisis, far from relenting, deepened each year. Unemployment peaked at 25 percent in 1932. With no end in sight, and with private firms crippled and charities overwhelmed by the crisis, Americans looked to their government as the last barrier against starvation, hopelessness, and perpetual poverty.

Few presidential elections in modern American history have been more consequential than that of 1932. The United States was struggling through the third year of the Depression, and exasperated voters overthrew Hoover in a landslide to elect the Democratic governor of New York, Franklin Delano Roosevelt. Roosevelt came from a privileged background in New York's Hudson River Valley (his distant cousin, Theodore Roosevelt, became president while Franklin was at Harvard). Franklin Roosevelt embarked on a slow but steady ascent through state and national politics. In 1913, he was appointed assistant secretary of the navy, a position he held during the defense emergency of World War I. In the course of his rise, in the summer of 1921, Roosevelt suffered a sudden bout of lower-body pain and paralysis. He was diagnosed with polio. The disease left him a paraplegic, but, encouraged and assisted by his wife, Eleanor, Roosevelt sought therapeutic treatment and maintained sufficient political connections to reenter politics. In 1928, Roosevelt won election as governor of New York. He oversaw the rise of the Depression and drew from progressivism to address the economic crisis. During his gubernatorial tenure, Roosevelt introduced the first comprehensive unemployment relief program and helped pioneer efforts to expand public utilities. He also relied on like-minded advisors. For example, Frances Perkins, then commissioner of the state's labor department, successfully advocated pioneering legislation that enhanced workplace safety and reduced the use of child labor in factories. Perkins later accompanied Roosevelt to Washington and served as the nation's first female secretary of labor.[22]

On July 1, 1932, Roosevelt, the newly designated presidential nominee of the Democratic Party, delivered the first and one of the most famous on-site acceptance speeches in American presidential history. Building to a conclusion, he promised, "I pledge you, I pledge myself, to a new deal for the American people." Newspaper editors seized on the phrase "new deal," and it entered the American political lexicon as shorthand for Roosevelt's program to address the Great Depression.[23] There were, however, few hints in his political campaign that suggested the size and scope of the "New Deal." Regardless, Roosevelt crushed Hoover. He won more counties than any previous candidate in American history. He spent the months between his election and inauguration traveling, planning, and assembling a team of advisors, the famous Brain Trust of academics and experts, to help him formulate a plan of attack. On March 4, 1933, in his first inaugural address, Roosevelt famously declared, "This great Nation will endure as it has endured, will revive and will prosper. So, first of all, let me assert my firm belief that the only thing we have to fear is fear itself—nameless, unreasoning, unjustified terror which paralyzes needed efforts to convert retreat into advance."[24]

Roosevelt's reassuring words would have rung hollow if he had not taken swift action against the economic crisis. In his first days in office, Roosevelt and his advisors prepared, submitted, and secured congressional enactment of numerous laws designed to arrest the worst of the Great Depression. His administration threw the federal government headlong into the fight against the Depression.

Roosevelt immediately looked to stabilize the collapsing banking system. He declared a national "bank holiday" closing American banks and set to work pushing the Emergency Banking Act swiftly through Congress. On March 12, the night before select banks reopened under stricter federal guidelines, Roosevelt appeared on the radio in the first of his Fireside Chats. The addresses, which the president continued delivering through four terms, were informal, even personal. Roosevelt used his airtime to explain New Deal legislation, to encourage confidence in government action, and to mobilize the American people's support. In the first chat, Roosevelt described the new banking safeguards and asked the public to place their trust and their savings in banks. Americans responded and across the country, deposits outpaced withdrawals. The act was a major success. In June, Congress passed the Glass-Steagall Banking Act, which instituted federal deposit insurance and barred the mixing of commercial and investment banking.[25]

Stabilizing the banks was only a first step. In the remainder of his First Hundred Days, Roosevelt and his congressional allies focused especially on relief for suffering Americans.[26] Congress debated, amended, and passed what Roosevelt proposed. As one historian noted, the president "directed the entire operation like a seasoned field general."[27] And despite some questions over the constitutionality of many of his actions, Americans and their congressional representatives conceded that the crisis demanded swift and immediate action. The Civilian Conservation Corps (CCC) employed young men on conservation and reforestation projects; the Federal Emergency Relief Administration (FERA) provided direct cash assistance to state relief agencies struggling to care for the unemployed;[28] the Tennessee Valley Authority (TVA) built a series of hydroelectric dams along the Tennessee River as part of a comprehensive program to economically develop a chronically depressed region;[29] and several agencies helped home and farm owners refinance their mortgages. And Roosevelt wasn't done.

The heart of Roosevelt's early recovery program consisted of two massive efforts to stabilize and coordinate the American economy: the Agricultural Adjustment Administration (AAA) and the National Recovery Administration (NRA). The AAA, created in May 1933, aimed to raise the prices of agricultural commodities (and hence farmers' income) by offering cash incentives to voluntarily limit farm production (decreasing supply, thereby raising prices).[30] The National Industrial Recovery Act (NIRA), which created the NRA in June 1933, suspended antitrust laws to allow businesses to establish "codes" that would coordinate prices, regulate production levels, and establish conditions of employment to curtail "cutthroat competition." In exchange for these exemptions, businesses agreed to provide reasonable wages and hours, end child labor, and allow workers the right to unionize. Participating businesses earned the right to display a placard with the NRA's Blue Eagle, showing their cooperation in the effort to combat the Great Depression.[31]

The programs of the First Hundred Days stabilized the American economy and ushered in a robust though imperfect recovery. GDP climbed once more, but even as output increased, unemployment remained stubbornly high. Though the unemployment rate dipped from its high in 1933, when Roosevelt was inaugurated, vast numbers remained out of work. If the economy could not put people back to work, the New Deal would try. The Civil Works Administration (CWA) and, later, the Works Progress Administration (WPA) put unemployed men and women to work on projects designed and proposed by local governments. The Public Works Administration (PWA) provided grants-in-aid to local governments for large infrastructure projects, such as bridges, tunnels, schoolhouses, libraries, and America's first federal public housing projects. Together, they provided not only tangible projects of immense public good but employment for millions. The New Deal was reshaping much of the nation.[32]

VIII. The New Deal in the South

The impact of initial New Deal legislation was readily apparent in the South, a region of perpetual poverty especially plagued by the Depression. In 1929 the average per capita income in the American Southeast was $365, the lowest in the nation. Southern farmers averaged $183 per year at a time when farmers on the West Coast made more than four times that.[33] Moreover, they were trapped into the production of cotton and corn, crops that depleted the soil and returned ever-diminishing profits. Despite the ceaseless efforts of civic boosters, what little industry the South had remained low-wage, low-skilled, and primarily extractive. Southern workers made significantly less than their national counterparts: 75 percent of nonsouthern textile workers, 60 percent of iron and steel workers, and a paltry 45 percent of lumber workers. At the time of the crash, southerners were already underpaid, underfed, and undereducated.[34]

Major New Deal programs were designed with the South in mind. FDR hoped that by drastically decreasing the amount of land devoted to cotton, the AAA would arrest its long-plummeting price decline. Farmers plowed up existing crops and left fields fallow, and the market price did rise. But in an agricultural world of landowners and landless farmworkers (such as tenants and sharecroppers), the benefits of the AAA bypassed the southerners who needed them most. The government relied on landowners and local organizations to distribute money fairly to those most affected by production limits, but many owners simply kicked tenants and croppers off their land, kept the subsidy checks for keeping those acres fallow, and reinvested the profits in mechanical farming equipment that further suppressed the demand for labor. Instead of making farming profitable again, the AAA pushed landless southern farmworkers off the land.[35]

But Roosevelt's assault on southern poverty took many forms. Southern industrial practices attracted much attention. The NRA encouraged higher wages and better conditions. It began to suppress the rampant use of child labor in southern mills and, for the first time, provided federal protection for unionized workers all across the country. Those gains were eventually solidified in the 1938 Fair Labor Standards Act, which set a national minimum wage of $0.25/hour (eventually rising to $0.40/hour). The minimum wage disproportionately affected low-paid southern workers and brought southern wages within the reach of northern wages.[36]

The president's support for unionization further impacted the South. Southern industrialists had proven themselves ardent foes of unionization, particularly in the infamous southern textile mills. In 1934, when workers at textile mills across the southern Piedmont struck over low wages and long hours, owners turned to local and state authorities to quash workers' groups, even as they recruited thousands of strikebreakers from the many displaced farmers swelling industrial centers looking for work. But in 1935 the National Labor Relations Act, also known as the Wagner Act, guaranteed the rights of most workers to unionize and bargain collectively. And so unionized workers, backed by the support of the federal government and determined to enforce the reforms of the New Deal, pushed for higher wages, shorter hours, and better conditions. With growing success, union members came to see Roosevelt as a protector of workers' rights. Or, as one union leader put it, an "agent of God."[37]

Perhaps the most successful New Deal program in the South was the TVA, an ambitious program to use hydroelectric power, agricultural and industrial reform, flood control, economic development, education, and healthcare to radically remake the impoverished watershed region of the Tennessee River. Though the area of focus was limited, Roosevelt's TVA sought to "make a different type of citizen" out of the area's penniless residents.[38] The TVA built a series of hydroelectric dams to control flooding and distribute electricity to the otherwise nonelectrified areas at government-subsidized rates. Agents of the TVA met with residents and offered training and general education classes to improve agricultural practices and exploit new job opportunities. The TVA encapsulates Roosevelt's vision for uplifting the South and integrating it into the larger national economy.[39]

Roosevelt initially courted conservative southern Democrats to ensure the legislative success of the New Deal, all but guaranteeing that the racial and economic inequalities of the region remained intact, but by the end of his second term, he had won the support of enough non-southern voters that he felt confident confronting some of the region's most glaring inequalities. Nowhere was this more apparent than in his endorsement of a report, formulated by a group of progressive southern New Dealers, titled "A Report on Economic Conditions in the South." The pamphlet denounced the hardships wrought by the southern economy—in his introductory letter to the report, Roosevelt called the region "the Nation's No. 1 economic problem"—and blasted reactionary southern anti–New Dealers. He suggested that the New Deal could save the South and thereby spur a nationwide recovery. The report was among the first broadsides in Roosevelt's coming reelection campaign that addressed the inequalities that continued to mark southern and national life.[40]

XI. The "Second" New Deal (1935-1936)

Facing reelection and rising opposition from both the left and the right, Roosevelt decided to act. The New Deal adopted a more radical, aggressive approach to poverty, the Second New Deal. In 1935, hoping to reconstitute some of the protections afforded workers in the now-defunct NRA, Roosevelt worked with Congress to pass the National Labor Relations Act (known as the Wagner Act for its chief sponsor, New York senator Robert Wagner), offering federal legal protection, for the first time, for workers to organize unions. Three years later, Congress passed the Fair Labor Standards Act, creating the modern minimum wage. The Second New Deal also oversaw the restoration of a highly progressive federal income tax, mandated new reporting requirements for publicly traded companies, refinanced long-term home mortgages for struggling homeowners, and attempted rural reconstruction projects to bring farm incomes in line with urban ones.[42]

The labor protections extended by Roosevelt's New Deal were revolutionary. In northern industrial cities, workers responded to worsening conditions by banding together and demanding support for workers' rights. In 1935, the head of the United Mine Workers, John L. Lewis, took the lead in forming a new national workers' organization, the Congress of Industrial Organizations (CIO), breaking with the more conservative, craft-oriented

AFL. The CIO won a major victory in 1937 when affiliated members in the United Automobile Workers (UAW) struck for recognition and better pay and hours at a General Motors (GM) plant in Flint, Michigan. In the first instance of a "sit-down" strike, the workers remained in the building until management agreed to negotiate. GM recognized the UAW and the "sit-down" strike became a new weapon in the fight for workers' rights. Across the country, unions and workers took advantage of the New Deal's protections to organize and win major concessions from employers.

The signature piece of Roosevelt's Second New Deal came the same year, in 1935. The Social Security Act provided for old-age pensions, unemployment insurance, and economic aid, based on means, to assist both the elderly and dependent children. The president was careful to mitigate some of the criticism from what was, at the time, in the American context, a revolutionary concept. He specifically insisted that social security be financed from payroll, not the federal government; "No dole," Roosevelt said repeatedly, "mustn't have a dole."[43] He thereby helped separate social security from the stigma of being an undeserved "welfare" entitlement. While such a strategy saved the program from suspicions, social security became the centerpiece of the modern American social welfare state. It was the culmination of a long progressive push for government-sponsored social welfare, an answer to the calls of Roosevelt's opponents on the Left for reform, a response to the intractable poverty among America's neediest groups, and a recognition that the government would now assume some responsibility for the economic well-being of its citizens. But for all of its groundbreaking provisions, the act, and the larger New Deal as well, excluded large swaths of the American population.[44]

XII. Equal Rights and the New Deal

The Great Depression was particularly tough for nonwhite Americans. As an African American pensioner told interviewer Studs Terkel, "The Negro was born in depression. It didn't mean too much to him. The Great American Depression . . . only became official when it hit the white man." Black workers were generally the last hired when businesses expanded production and the first fired when businesses experienced downturns. In 1932, with the national unemployment average hovering around 25 percent, Black unemployment reached as high as 50 percent, while even Black workers who kept their jobs saw their already low wages cut dramatically.[45]

Black Americans faced discrimination everywhere but suffered especially severe legal inequality in the Jim Crow South. In 1931, for instance, a group of nine young men riding the rails between Chattanooga and Memphis, Tennessee, were pulled from the train near Scottsboro, Alabama, and charged with assaulting two white women. Despite clear evidence that the assault had not occurred, and despite one of the women later recanting, the young men endured a series of sham trials in which all but one were sentenced to death. Only the communist-oriented International Legal Defense (ILD) came to the aid of the "Scottsboro Boys," who soon became a national symbol of continuing racial prejudice in America and a rallying point for civil rights–minded Americans. In appeals, the ILD successfully challenged the boys' sentencing, and the death sentences were either commuted or reversed, although the last of the accused did not receive parole until 1946.[46]

Despite a concerted effort to appoint Black advisors to some New Deal programs, Franklin Roosevelt did little to directly address the difficulties Black communities faced. To do so openly would provoke southern Democrats and put his New Deal coalition—–the uneasy alliance of national liberals, urban laborers, farm workers, and southern whites—at risk. Roosevelt not only rejected such proposals as abolishing the poll tax and declaring lynching a federal crime, he refused to specifically target African American needs in any of his larger relief and reform packages. As he explained to the national secretary of the NAACP, "I just can't take that risk."[47]

In fact, many of the programs of the New Deal had made hard times more difficult. When the codes of the NRA set new pay scales, they usually took into account regional differentiation and historical data. In the South, where African Americans had long suffered unequal pay, the new codes simply perpetuated that inequality. The codes also exempted those involved in farm work and domestic labor, the occupations of a majority of southern Black men and women. The AAA was equally problematic as owners displaced Black tenants and sharecroppers, many of whom were forced to return to their farms as low-paid day labor or to migrate to cities looking for wage work.[48]

Perhaps the most notorious failure of the New Deal to aid African Americans came with the passage of the Social Security Act. Southern politicians chafed at the prospect of African Americans benefiting from federally sponsored social welfare, afraid that economic security would allow Black southerners to escape the cycle of poverty that kept them tied to the land as cheap, exploitable farm laborers. The *Jackson* (Mississippi) *Daily News* callously warned that "The average Mississippian can't imagine himself chipping in to pay pensions for able-bodied Negroes to sit around in idleness . . . while cotton and corn crops are crying for workers." Roosevelt agreed to remove domestic workers and farm laborers from the provisions of the bill, excluding many African Americans, already laboring under the strictures of legal racial discrimination, from the benefits of an expanding economic safety net.[49]

Women, too, failed to receive the full benefits of New Deal programs. On one hand, Roosevelt included women in key positions within his administration, including the first female cabinet secretary, Frances Perkins, and a prominently placed African American advisor in the National Youth Administration, Mary McLeod Bethune. First Lady Eleanor Roosevelt was a key advisor to the president and became a major voice for economic and racial justice. But many New Deal programs were built on the assumption that men would serve as breadwinners and women as mothers, homemakers, and consumers. New Deal programs aimed to help both but usually by forcing such gendered assumptions, making it difficult for women to attain economic autonomy. New Deal social welfare programs tended to funnel women into means-tested, state-administered relief programs while reserving entitlement benefits for male workers, creating a kind of two-tiered social welfare state. And so, despite great advances, the New Deal failed to challenge core inequalities that continued to mark life in the United States.[50]