

The Depression in the United States--An Overview

The Great Depression

In October 1929 the stock market crashed, wiping out 40 percent of the paper values of common stock. Even after the stock market collapse, however, politicians and industry leaders continued to issue optimistic predictions for the nation's economy. But the Depression deepened, confidence evaporated and many lost their life savings. By 1933 the value of stock on the New York Stock Exchange was less than a fifth of what it had been at its peak in 1929. Business houses closed their doors, factories shut down and banks failed. Farm income fell some 50 percent. By 1932 approximately one out of every four Americans was unemployed.

The core of the problem was the immense disparity between the country's productive capacity and the ability of people to consume. Great innovations in productive techniques during and after the war raised the output of industry beyond the purchasing capacity of U.S. farmers and wage earners. The savings of the wealthy and middle class, increasing far beyond the possibilities of sound investment, had been drawn into frantic speculation in stocks or real estate. The stock market collapse, therefore, had been merely the first of several detonations in which a flimsy structure of speculation had been leveled to the ground.

The presidential campaign of 1932 was chiefly a debate over the causes and possible remedies of the Great Depression. Herbert Hoover, unlucky in entering The White House only eight months before the stock market crash, had struggled tirelessly, but ineffectively, to set the wheels of industry in motion again. His Democratic opponent, Franklin D. Roosevelt, already popular as the governor of New York during the developing crisis, argued that the Depression stemmed from the U.S. economy's underlying flaws, which had been aggravated by Republican policies during the 1920s. President Hoover replied that the economy was fundamentally sound, but had been shaken by the repercussions of a worldwide depression -- whose causes could be traced back to the war. Behind this argument lay a clear implication: Hoover had to depend largely on natural processes of recovery, while Roosevelt was prepared to use the federal government's authority for bold experimental remedies.

The election resulted in a smashing victory for Roosevelt, who won 22,800,000 votes to Hoover's 15,700,000. The United States was about to enter a new era of economic and political change.

Roosevelt and the New Deal

In 1933 the new president, Franklin Roosevelt, brought an air of confidence and optimism that quickly rallied the people to the banner of his program, known as the New Deal. "The only thing we have to fear is fear itself," the president declared in his inaugural address to the nation.

In a certain sense, it is fair to say that the New Deal merely introduced types of social and economic reform familiar to many Europeans for more than a generation. Moreover, the New Deal represented the culmination of a long-range trend toward abandonment of "laissez-faire" capitalism, going back to the regulation of the railroads in the 1880s, and the flood of state and national reform legislation introduced in the Progressive era of Theodore Roosevelt and Woodrow Wilson.

What was truly novel about the New Deal, however, was the speed with which it accomplished what previously had taken generations. In fact, many of the reforms were hastily drawn and weakly administered; some actually contradicted others. And during the entire New Deal era, public criticism and debate were never interrupted or suspended; in fact, the New Deal brought to the individual citizen a sharp revival of interest in government.

When Roosevelt took the presidential oath, the banking and credit system of the nation was in a state of paralysis. With astonishing rapidity the nation's banks were first closed -- and then reopened only if they were solvent. The administration adopted a policy of moderate currency inflation to start an upward movement in commodity prices and to afford some relief to debtors. New governmental agencies brought generous credit facilities to industry and agriculture. The Federal Deposit Insurance Corporation (FDIC) insured savings-bank deposits up to \$5,000, and severe regulations were imposed upon the sale of securities on the stock exchange.

Unemployment

By 1933 millions of Americans were out of work. Bread lines were a common sight in most cities. Hundreds of thousands roamed the country in search of food, work and shelter. "Brother, can you spare a dime?" went the refrain of a popular song.

An early step for the unemployed came in the form of the Civilian Conservation Corps (CCC), a program enacted by Congress to bring relief to young men between 18 and 25 years of age. Run in semi-military style, the CCC enrolled jobless young men in work camps across the country for about \$30 per month. About 2 million young men took part during the decade. They participated in a variety of conservation projects: planting trees to combat soil erosion and maintain national forests; eliminating stream pollution; creating fish, game and bird sanctuaries; and conserving coal, petroleum, shale, gas, sodium and helium deposits.

Work relief came in the form of the Civil Works Administration. Although criticized as "make work," the jobs funded ranged from ditch digging to highway repairs to teaching. Created in November 1933, it was abandoned in the spring of 1934. Roosevelt and his key officials, however, continued to favor unemployment programs based on work relief rather than welfare.

Agriculture

The New Deal years were characterized by a belief that greater regulation would solve many of the country's problems. In 1933, for example, Congress passed the Agricultural Adjustment Act (AAA) to provide economic relief to farmers. The AAA had at its core a plan to raise crop prices by paying farmers a subsidy to compensate for voluntary cutbacks in production. Funds for the payments would be generated by a tax levied on industries that processed crops. By the time the act had become law, however, the growing season was well underway, and the AAA encouraged farmers to plow under their abundant crops. Secretary of Agriculture Henry A. Wallace called this activity a "shocking commentary on our civilization." Nevertheless, through the AAA and the Commodity Credit Corporation, a program which extended loans for crops kept in storage and off the market, output dropped.

Between 1932 and 1935, farm income increased by more than 50 percent, but only partly because of

federal programs. During the same years that farmers were being encouraged to take land out of production -- displacing tenants and sharecroppers -- a severe drought hit the Great Plains states, significantly reducing farm production. Violent wind and dust storms ravaged the southern Great Plains in what became known as the "Dust Bowl," throughout the 1930s, but particularly from 1935 to 1938. Crops were destroyed, cars and machinery were ruined, people and animals were harmed. Approximately 800,000 people, often called "Okies," left Arkansas, Texas, Missouri and Oklahoma during the 1930s and 1940s. Most headed farther west to the land of myth and promise, California. The migrants were not only farmers, but also professionals, retailers and others whose livelihoods were connected to the health of the farm communities. California was not the place of their dreams, at least initially. Most migrants ended up competing for seasonal jobs picking crops at extremely low wages.

The government provided aid in the form of the Soil Conservation Service, established in 1935. Farm practices that had damaged the soil had intensified the severity of the storms, and the Service taught farmers measures to reduce erosion. In addition, almost 30,000 kilometers of trees were planted to break the force of winds.

Although the AAA had been mostly successful, it was abandoned in 1936, when the tax on food processors was ruled unconstitutional. Six weeks later Congress passed a more effective farm-relief act, which authorized the government to make payments to farmers who reduced plantings of soil-depleting crops -- thereby achieving crop reduction through soil conservation practices.

By 1940 nearly 6 million farmers were receiving federal subsidies under this program. The new act likewise provided loans on surplus crops, insurance for wheat and a system of planned storage to ensure a stable food supply. Soon, prices of agricultural commodities rose, and economic stability for the farmer began to seem possible.

Industry and Labor

The National Recovery Administration (NRA), established in 1933 with the National Industrial Recovery Act (NIRA), attempted to end cut-throat competition by setting codes of fair competitive practice to generate more jobs and thus more buying. Although the NRA was welcomed initially, business complained bitterly of over-regulation as recovery began to take hold. The NRA was declared unconstitutional in 1935. By this time other policies were fostering recovery, and the government soon took the position that administered prices in certain lines of business were a severe drain on the national economy and a barrier to recovery.

It was also during the New Deal that organized labor made greater gains than at any previous time in American history. NIRA had guaranteed to labor the right of collective bargaining (bargaining as a unit representing individual workers with industry). Then in 1935 Congress passed the National Labor Relations Act, which defined unfair labor practices, gave workers the right to bargain through unions of their own choice and prohibited employers from interfering with union activities. It also created the National Labor Relations Board to supervise collective bargaining, administer elections and ensure workers the right to choose the organization that should represent them in dealing with employers.

The great progress made in labor organization brought working people a growing sense of common interests, and labor's power increased not only in industry but also in politics. This power was exercised largely within the framework of the two major parties, however, and the Democratic Party generally received more union support than the Republicans.

The Second New Deal

In its early years, the New Deal sponsored a remarkable series of legislative initiatives and achieved significant increases in production and prices -- but it did not bring an end to the Depression. And as the sense of immediate crisis eased, new demands emerged. Businessmen mourned the end of "laissez-faire" and chafed under the regulations of the NIRA. Vocal attacks also mounted from the political left and right as dreamers, schemers and politicians alike emerged with economic panaceas that drew wide audiences of those dissatisfied with the pace of recovery. They included Francis E. Townsend's plan for generous old-age pensions; the inflationary suggestions of Father Coughlin, the radio priest who blamed international bankers in speeches increasingly peppered with anti-Semitic imagery; and most formidably, the "Every Man a King" plan of Huey P. Long, senator and former governor of Louisiana, the powerful and ruthless spokesman of the displaced who ran the state like a personal fiefdom. (If he had not been assassinated, Long very likely would have launched a presidential challenge to Franklin Roosevelt in 1936.)

In the face of these pressures from left and right, President Roosevelt backed a new set of economic and social measures. Prominent among these were measures to fight poverty, to counter unemployment with work and to provide a social safety net.

The Works Progress Administration (WPA), the principal relief agency of the so-called second New Deal, was an attempt to provide work rather than welfare. Under the WPA, buildings, roads, airports and schools were constructed. Actors, painters, musicians and writers were employed through the Federal Theater Project, the Federal Art Project and the Federal Writers Project. In addition, the National Youth Administration gave part-time employment to students, established training programs and provided aid to unemployed youth. The WPA only included about three million jobs at a time; when it was abandoned in 1943 it had helped a total of 9 million people.

But the New Deal's cornerstone, according to Roosevelt, was the Social Security Act of 1935. Social Security created a system of insurance for the aged, unemployed and disabled based on employer and employee contributions. Many other industrialized nations had already enacted such programs, but calls for such an initiative in the United States by the Progressives in the early 1900s had gone unheeded. Although conservatives complained that the Social Security system went against American traditions, it was actually relatively conservative. Social Security was funded in large part by taxes on the earnings of current workers, with a single fixed rate for all regardless of income. To Roosevelt, these limitations on the programs were compromises to ensure passage. Although its origins were initially quite modest, Social Security today is one of the largest domestic programs administered by the U.S. government.

A New Coalition

In 1936, the Republican Party nominated Alfred M. Landon, the relatively liberal governor of Kansas, to oppose Roosevelt. Despite all the complaints leveled at the New Deal, Roosevelt won an even more decisive victory than in 1932. He took 60 percent of the population and carried all states except Maine and Vermont. In this election, a broad new coalition aligned with the Democratic Party emerged, consisting of labor, most farmers, immigrants and urban ethnic groups from East and Southern Europe, African Americans and the South. The Republican Party received the support of business as well as middle-class members of small towns and suburbs. This political alliance, with some variation and shifting, remained intact for several decades.

From 1932 to 1938 there was widespread public debate on the meaning of New Deal policies to the nation's political and economic life. It became obvious that Americans wanted the government to take greater responsibility for the welfare of the nation. Indeed, historians generally credit the New Deal with establishing the foundations of the modern welfare state in the United States. Some New Deal critics argued that the indefinite extension of government functions would eventually undermine the liberties of the people. But President Roosevelt insisted that measures fostering economic well-being

would strengthen liberty and democracy.

In a radio address in 1938, Roosevelt reminded the American people that:

Democracy has disappeared in several other great nations, not because the people of those nations disliked democracy, but because they had grown tired of unemployment and insecurity, of seeing their children hungry while they sat helpless in the face of government confusion and government weakness through lack of leadership....Finally, in desperation, they chose to sacrifice liberty in the hope of getting something to eat. We in America know that our democratic institutions can be preserved and made to work. But in order to preserve them we need...to prove that the practical operation of democratic government is equal to the task of protecting the security of the people....The people of America are in agreement in defending their liberties at any cost, and the first line of the defense lies in the protection of economic security.

Eve of World War II

Before Roosevelt's second term was well under way, his domestic program was overshadowed by a new danger little noted by average Americans: the expansionist designs of totalitarian regimes in Japan, Italy and Germany. In 1931 Japan invaded Manchuria and crushed Chinese resistance; a year later the Japanese set up the puppet state of Manchukuo. Italy, having succumbed to fascism, enlarged its boundaries in Libya and in 1935 attacked Ethiopia. Germany, where Adolf Hitler had organized the National Socialist Party and seized the reins of government in 1933, reoccupied the Rhineland and undertook large-scale rearmament.

As the real nature of totalitarianism became clear, and as Germany, Italy and Japan continued their aggression, American apprehension fueled isolationist sentiment. In 1938, after Hitler had incorporated Austria into the German Reich, his demands for the Sudetenland of Czechoslovakia made war seem possible at any moment in Europe. The United States, disillusioned by the failure of the crusade for democracy in World War I, announced that in no circumstances could any country involved in the conflict look to it for aid. Neutrality legislation, enacted piecemeal from 1935 to 1937, prohibited trade with or credit to any of the warring nations. The objective was to prevent, at almost any cost, the involvement of the United States in a non-American war.

With the Nazi assault on Poland in 1939 and the outbreak of World War II, isolationist sentiment increased, even though Americans were far from neutral in their feelings about world events. Public sentiment clearly favored the victims of Hitler's aggression and supported the Allied powers that stood in opposition to German expansion. Under the circumstances, however, Roosevelt could only wait until public opinion regarding U.S. involvement was altered by events.

With the fall of France and the air war against Britain in 1940, the debate intensified between those who favored aiding the democracies and the isolationists, organized around the America First Committee, whose support ranged from Midwestern conservatives to left-leaning pacifists. In the end, the interventionist argument won a protracted public debate, aided in large measure by the work of the Committee to Defend America by Aiding the Allies.

The United States joined Canada in a Mutual Board of Defense, and aligned with the Latin American republics in extending collective protection to the nations in the Western Hemisphere. Congress, confronted with the mounting crisis, voted immense sums for rearmament, and in September 1940 passed the first peacetime conscription bill ever enacted in the United States -- albeit by a margin of one vote in the House of Representatives. In early 1941 Congress approved the Lend-Lease Program, which enabled President Roosevelt to transfer arms and equipment to any nation (notably Great Britain, the Soviet Union and China) deemed vital to the defense of the United States. Total Lend-

Lease aid by war's end amounted to more than \$50,000 million.

The 1940 presidential election campaign demonstrated that the isolationists, while vocal, commanded relatively few followers nationally. Roosevelt's Republican opponent, Wendell Wilkie, lacked a compelling issue since he supported the president's foreign policy, and also agreed with a large part of Roosevelt's domestic program. Thus the November election yielded another majority for Roosevelt. For the first time in U.S. history, a president was elected to a third term.

Japan, Pearl Harbor and War

While most Americans anxiously watched the course of the European war, tension mounted in Asia. Taking advantage of an opportunity to improve its strategic position, Japan boldly announced a "new order" in which it would exercise hegemony over all of the Pacific. Battling for its survival against Nazi Germany, Britain was unable to resist, withdrawing from Shanghai and temporarily closing the Burma Road. In the summer of 1940, Japan won permission from the weak Vichy government in France to use airfields in Indochina. By September the Japanese had joined the Rome-Berlin Axis. As a countermove, the United States imposed an embargo on export of scrap iron to Japan.

It seemed that the Japanese might turn southward toward the oil, tin and rubber of British Malaya and the Dutch East Indies. In July 1941 the Japanese occupied the remainder of Indochina; the United States, in response, froze Japanese assets.

General Hideki Tojo became prime minister of Japan in October 1941. In mid-November, he sent a special envoy to the United States to meet with Secretary of State Cordell Hull. Among other things, Japan demanded that the U.S. release Japanese assets and stop U.S. naval expansion in the Pacific. Hull countered with a proposal for Japanese withdrawal from China and Indochina in exchange for the freeing of the frozen assets. The Japanese asked for two weeks to study the proposal, but on December 1 rejected it. On December 6, Franklin Roosevelt appealed directly to the Japanese emperor, Hirohito. On the morning of December 7, however, Japanese carrier-based planes attacked the U.S. Pacific fleet at Pearl Harbor, Hawaii, in a devastating, surprise attack. Nineteen ships, including five battleships, and about 150 U.S. planes were destroyed; more than 2,300 soldiers, sailors and civilians were killed. Only one fact favored the Americans that day: the U.S. aircraft carriers that would play such a critical role in the ensuing naval war in the Pacific were at sea and not anchored at Pearl Harbor.

As the details of the Japanese raids upon Hawaii, Midway, Wake and Guam blared from American radios, incredulity turned to anger at what President Roosevelt called "a day that will live in infamy." On December 8, Congress declared a state of war with Japan; three days later Germany and Italy declared war on the United States.

The nation rapidly geared itself for mobilization of its people and its entire industrial capacity. On January 6, 1942, President Roosevelt announced staggering production goals: delivery in that year of 60,000 planes, 45,000 tanks, 20,000 anti-aircraft guns and 18 million deadweight tons of merchant shipping. All the nation's activities -- farming, manufacturing, mining, trade, labor, investment, communications, even education and cultural undertakings -- were in some fashion brought under new and enlarged controls. The nation raised money in enormous sums and created great new industries for the mass production of ships, armored vehicles and planes. Major movements of population took place. Under a series of conscription acts, the United States brought the armed forces up to a total of 15,100,000. By the end of 1943, approximately 65 million men and women were in uniform or in war-related occupations.

The attack on the United States disarmed the appeal of isolationists and permitted quick military mobilization. However, as a result of Pearl Harbor and the fear of Asian espionage, Americans also

committed an act of intolerance: the internment of Japanese-Americans. In February 1942, nearly 120,000 Japanese-Americans residing in California were removed from their homes and interned behind barbed wire in 10 wretched temporary camps, later to be moved to "relocation centers" outside isolated Southwestern towns. Nearly 63 percent of these Japanese-Americans were Nisei -- American-born -- and, therefore, U.S. citizens. No evidence of espionage ever surfaced. In fact, Japanese-Americans from Hawaii and the continental United States fought with noble distinction and valor in two infantry units on the Italian front. Others served as interpreters and translators in the Pacific. In 1983 the U.S. government acknowledged the injustice of internment with limited payments to those Japanese-Americans of that era who were still living.

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Return to [The Great Depression](#)