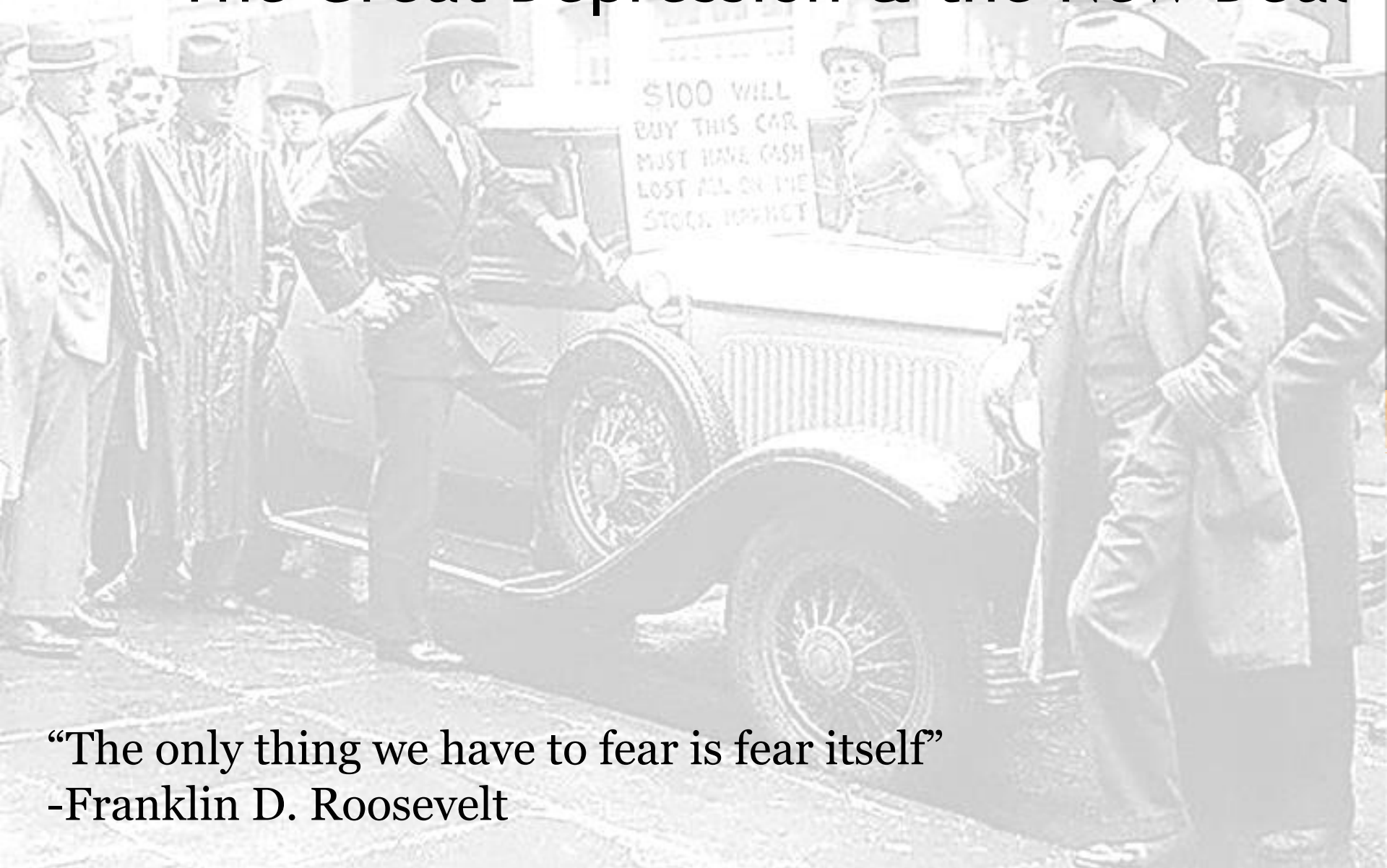


Chapter Eleven: The Great Depression & the New Deal



“The only thing we have to fear is fear itself”
-Franklin D. Roosevelt

Chapter Objective, Essential Questions, & TEKS

- **Objective:**
 - Examine the significance, the causes, and the effects of the Great Depression, the Dust Bowl, and the New Deal.
- **Essential Questions:**
 - What were the causes of the Great Depression?
 - Why was Herbert Hoover unable to cope with the Great Depression?
 - What were the effects of the Great Depression?
 - How did the New Deal offer a new approach to confronting the Depression?
- **TEKS:**
 - History: 2 (D)
 - Geography: 12 (A)
 - Government: 19 (A), 19 (B), 20 (B)
 - Economics: 15 (E), 16 (B), 16 (C), 16 (D), 16 (E)
 - Culture: 26 (D)

Chapter Vocabulary

- Great Depression
- Herbert Hoover
- Franklin D. Roosevelt
- John Steinbeck
- Dorothea Lange
- Dust Bowl
- New Deal
- Hoovervilles
- Fireside Chats
- Eleanor Roosevelt
- Relief, Recovery, Reform
- National Recovery Administration
- Banking Crisis
- Agricultural Adjustment Acts
- Civilian Conservation Corps
- Federal Reserve
- Gold Standard
- Fiat Money
- Twenty-Second Amendment
- Schechter Poultry v. U.S.
- Court-Packing Plan

Important Ideas

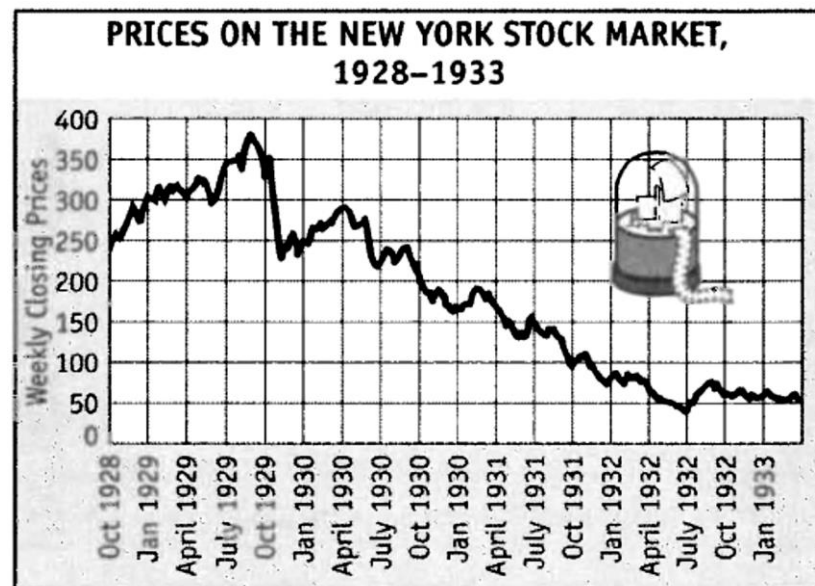
- The Great Depression had several causes. Manufacturers were producing more goods than consumers could buy. People were speculating in the stock market and real estate, driving up prices. Tariff barriers reduced international trade.
- When the New York Stock Market crashed in October 1929, it set off a chain reaction. Investors lost savings; companies could not sell stocks to raise money; manufacturers closed factories; prices dropped; and unemployment grew. Make-shift shanty homes, known as "Hoovervilles," grew up on the outskirts of towns. Many people relied on soup kitchens for food. Dorothea Lange and John Steinbeck depicted the human suffering of the Great Depression.
- On the Great Plains, a spell of dry weather in the 1930s turned the soil into dust. Farmers had to leave the "Dust Bowl." Many farmers migrated to California.
- About half a million Mexican-American workers were forcibly sent back to Mexico because of the Mexican Repatriation program.
- The supply of money in the economy affects the rate of economic activity. Some economists believe the Federal Reserve Board reduced the money supply during the Great Depression when it should have expanded it.
- During the Great Depression, women often had the job of holding things in the family together when their husbands were unemployed. First Lady Eleanor Roosevelt addressed women directly in her book, *Its Up to the Women*.

Important Ideas

- Most Americans felt President Hoover did too little, too late to combat the Great Depression. He cut taxes and established the Reconstruction Finance Corporation to make loans to banks and businesses. But he failed to provide direct emergency relief since he feared undermining American's "rugged individualism."
- Roosevelt's New Deal consisted of measures of Relief, Recovery, and Reform. For relief, he declared a Bank Holiday, made emergency loans to home owners, and gave the unemployed jobs through work-relief projects. For recovery, he sought to "prime the pump., by putting money into the economy to get it going. He established voluntary codes for businesses to follow, and passed legislation to keep farm prices up. For reform, Roosevelt proposed Social Security, a program with insurance for the unemployed or retired, in order to provide a safety net. He also introduced the FDIC to protect bank deposits and the Securities and Exchange Commission to prevent fraud on the stock market.
- There were many critics of the New Deal. Father Conklin, Francis Townsend and Huey Long proposed giving government money directly to the needy.
- The U.S. Supreme Court overruled part of the New Deal in *Schechter v. U.S.*, on the grounds that Congress could not give the President powers that were not granted directly or indirectly in the Constitution. Roosevelt developed a Court-Packing Scheme, where he proposed that the President appoint an additional Justice to the Court for each one over the age of 70 1/2. This plan was rejected by Congress and the American public as an attempt to upset the traditional balance of power that existed in American government.

Causes of the Great Depression

- Economies historically pass through good and bad periods that regularly repeat themselves. These up-and-down periods of business activity are referred to as the **business cycle**. The bad times are called **depressions**- characterized by business failures, high unemployment, and falling prices. The **Great Depression** was the worst depression in our nation's history.
- A variety of factors caused the economy to move from the prosperity of the 1920s to the severe depression of the 1930s.



- Overproduction:**
 - The 1920s had witnessed rapid economic expansion as manufacturers made and sold new products like cars, radios, and refrigerators. Many consumers, however, lacked the money to buy these goods. Manufacturers were soon producing more goods than they could sell.
- Speculation:**
 - In the 1920s, stocks soared in value. As you learned in Chapter 10, many people bought stocks hoping to "get rich quick." This drove stock prices ever higher. Each day the speculative boom on the stock market saw more people investing in Wall Street. By 1929, stock prices had tripled since 1920.

Causes of the Great Depression

- **Buying on the Margin:**

- In the 1920s, stocks could be purchased for a 10% down-payment, called a **margin**. The rest of the price was financed by a loan from the stock broker. It was similar to making a purchase on the installment plan. The buyer paid only 10% of the stock's value and promised to pay the rest when the stock was sold.
- If the stock's price fell, the purchaser was still responsible for the whole price he or she had promised to pay. As long as the stock prices kept going up, this was not a problem. But if prices dropped, buyers on margin often did not have enough of their own money to cover such losses. People also invested in real estate with similar hopes of getting rich quickly. The frenzy of stock market and real estate speculation created an atmosphere of easy money.

- **Shaky Banking:**

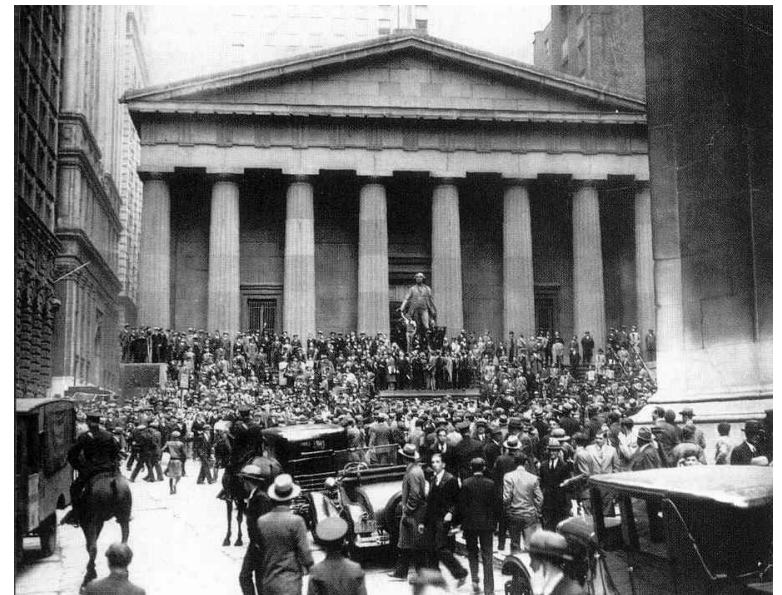
- Banks generally collect money from depositors and then invest these funds in businesses. This enables them to earn money to pay interest on deposits. The vast majority of American bankers in the 1920s were honest and followed established banking practices. But some bankers invested their depositors' money in unsound investments. The government failed to effectively regulate either the banking system or the stock market. Consumers also bought more than they could afford. This vast over-extension of credit made the entire American economy extremely vulnerable.

- **Restricted International Trade:**

- American tariffs protected American markets, but they made it hard for producers to sell abroad since other countries retaliated by setting up high tariffs of their own. In 1930, President Hoover signed the highest tariff in U.S. history. The shrinking of world trade contributed to the Great Depression.

The Great Depression Begins

- When the New York Stock Market crashed in 1929, it set off a chain reaction that toppled the American economy and quickly spread to the rest of the world.
- Back in 1907, when the market started to turn downward, private bankers like J.P. Morgan had stepped in and bought stocks to keep prices up. On “Black Thursday,” October 24, 1929, stocks started moving sharply downward. People could not sell their shares fast enough. There was no one willing to step in and buy stocks to support falling prices. Top bankers met that Friday and bought stocks above current market prices to try to stop the rapid decline in prices.
- This action by bankers only delayed the collapse by a few days. On October 29, known as “Black Tuesday,” the dam burst. Stock prices kept falling faster and faster. Prices were soon at all-time lows. The market had crashed.



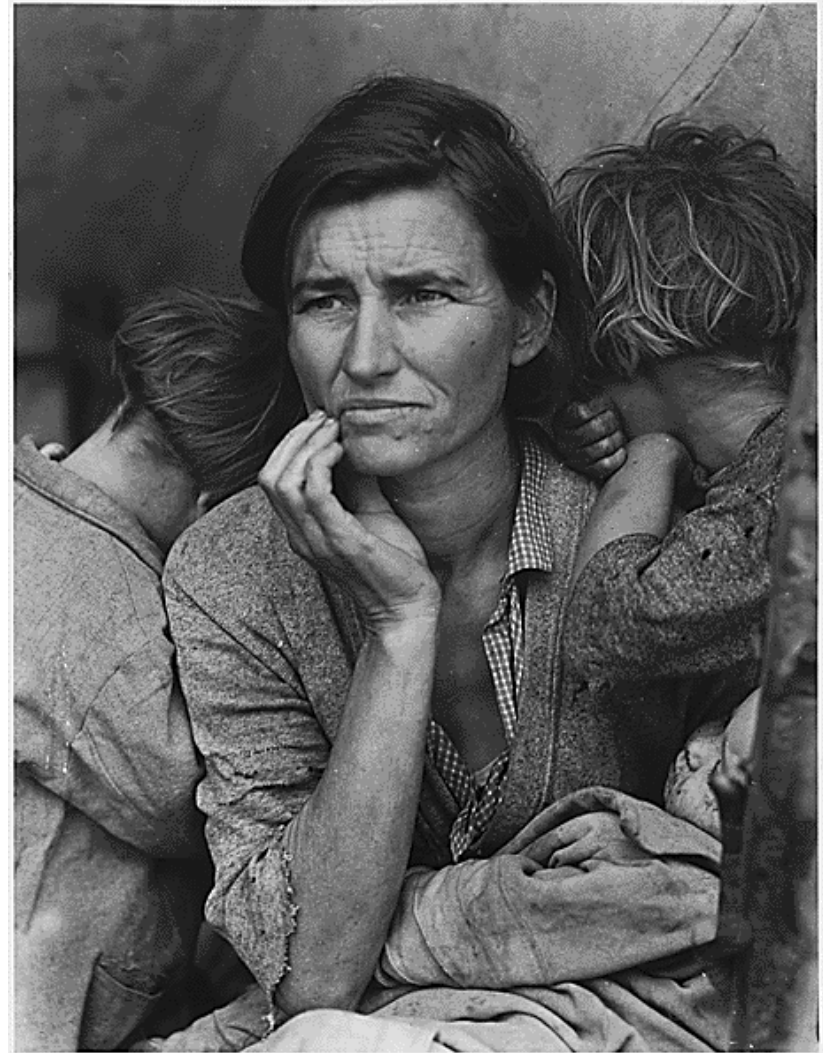
From Wall Street to Main Street

- After the stock market crash, corporations could no longer raise funds. People who lost their money in the stock market could not repay their loans or rents, leading to bank failures. Thousands of people lost their life savings. In this new economic climate, the demand for goods decreased. As prices fell, factories closed, and workers lost their jobs. Demand was reduced still further, causing prices to fall even more. Other factories closed, and the country became caught in the grips of a vicious downward spiral. People could not pay their rents or mortgages, and people lost their homes. There was no one to buy the foreclosed houses and home prices plummeted downward. Without any kind of "safety net," such as unemployment insurance, hundreds of thousands of American workers found themselves living on the street or in makeshift shacks.



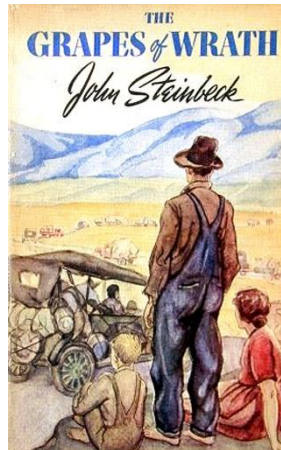
Human Impact of the Depression

- The Great Depression was a national nightmare. During the 1920s, many Americans had started to equate their self-worth with their material possessions. When the Great Depression struck, people felt worthless. The reality of economic chaos and confusion replaced the nation's traditional optimistic outlook. People waited for events to turn, spinning in circles as they fought for their daily survival. Businesses failed, farmers lost their farms, banks failed, and millions of people were out of work. There was no unemployment insurance or bank deposit insurance. Private charities were overwhelmed. People were homeless and went hungry. Millions depended on soup kitchens for their food.
- Writers like **John Steinbeck** and photographers like **Dorothea Lange** recorded the misery of the Great Depression.



The Dust Bowl

- During the 1930s, farmers on the Great Plains faced a natural disaster as well as financial disaster. Since the 1870s, farmers had been tilling the Great Plains, cutting the grasses covering the topsoil, and tapping underground water supplies. A series of droughts (*long periods without rain*) in the early 1930s dried up crops and topsoil, turning the soil to dust. The ground cover that had held the soil in place was now gone. Lasting for a decade, heavy winds carried topsoil across hundreds of miles, burying homes and destroying harvests. Unable to grow enough to pay their bills, farmers were forced to abandon their farms. Many farmers moved west to California. Over one million farmers were driven from their lands by the "**dust bowl**."
- John Steinbeck** wrote a series of articles on these **Oakies** -- farmers from Oklahoma who moved to migrant worker camps in California. In 1936, Steinbeck published *The Harvest Gypsies*, a series of articles first printed in the *San Francisco News*, based on his own research on migrant workers living in California during the Great Depression. This research later provided the background for his famous novel, *The Grapes of Wrath*.



Mexican Repatriation

- The Immigration Acts of the 1920s had imposed quotas on immigrants from Europe but not from Mexico or the rest of the Americas. Mexicans freely entered the United States so long as they passed a medical and literacy test (in Spanish) and paid a small tax. Many came to escape the turmoil in Mexico caused by the Mexican Revolution. In the United States, they were generally willing to accept backbreaking work for low wages. Many settled in "barrios" (*Mexican-American neighborhoods*) in California, Texas or the Southwest. In Texas, Mexican Americans were banned from attending "white" public schools. They also faced other acts of prejudice.
- With less demand for labor during the Depression, white American farmers were in desperate need of work and sought jobs filled by Mexican-American immigrants. As public hostility to Mexican immigrants grew, it became more difficult for Mexicans to enter the United States. Only 33,000 were granted visas for the entire decade, compared to half a million in the 1920s. President Hoover authorized a special **Mexican Repatriation Act** to send Mexican-American immigrants back to Mexico. More than half a million Mexican Americans were forcibly sent back to Mexico during the Great Depression. Many of them may have been lawful American citizens who became separated from their families.



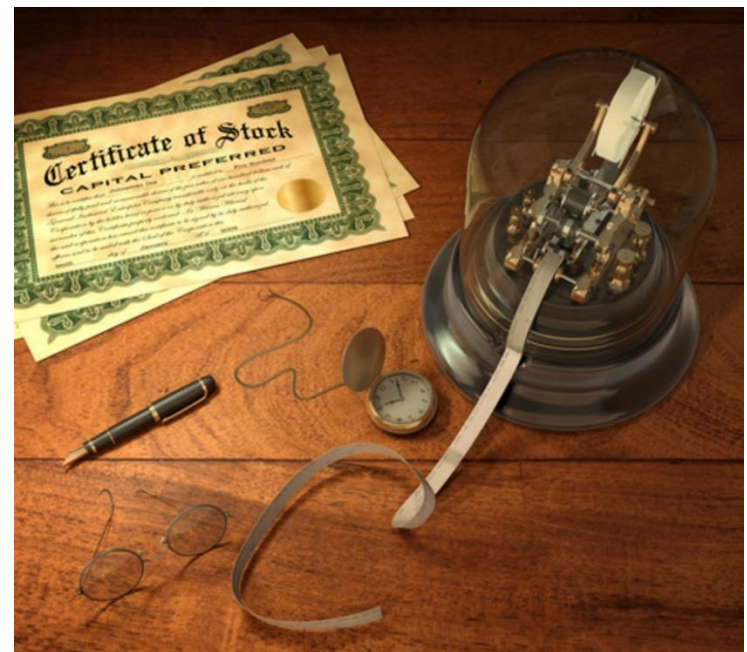
Hoover Fails to Halt the Depression

- In the months leading up to the Presidential election of 1928, Herbert Hoover had conducted a study of American society. He had hoped to use this information to promote national economic development and to relieve poverty. But by 1932, the leader who had once been one of the most respected men in the nation had become one of the most despised. Hoover's name became identified with the Great Depression. Despite the spiraling economic catastrophe, President Hoover had remained true to his conviction in *laissez-faire* capitalism.



Hoover's Philosophy

- Despite rising unemployment, Hoover had rejected demands for the federal government to provide direct payments to the unemployed and needy. He believed that this would reduce the incentive to work, undermining Americans' "rugged individualism." Instead, Hoover believed that voluntary private organizations should provide such emergency relief. Hoover believed it was not the role of government to step in for voluntary philanthropy.
- Following the advice of most leading economists of his day, Hoover believed that when prices dropped low enough, people would resume buying, production would pick up, and employment would increase again. Unfortunately, his predictions turned out to be incorrect. There was a lack of **aggregate** (*total*) **demand**, preventing the economy from recovering. Unemployed Americans could not buy more goods, no matter how little they cost. The Federal Reserve made matters worse by reducing the money supply rather than increasing it.



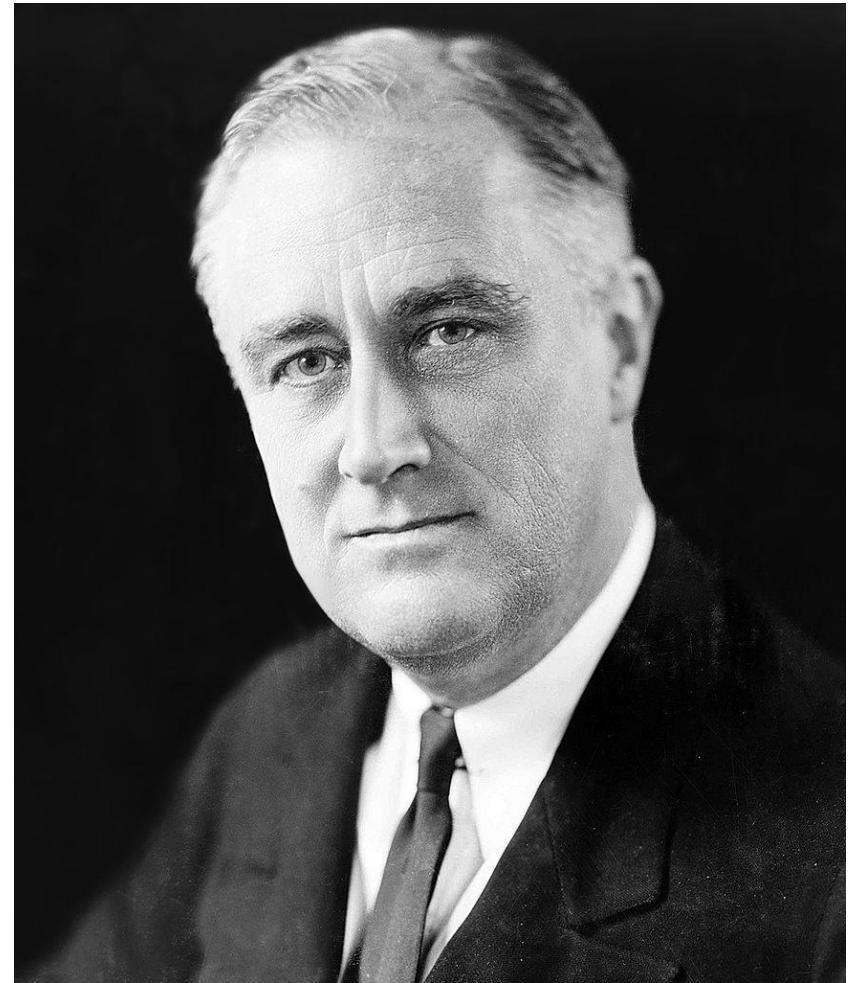
Hoover Finally Responds

- Hoover cut taxes, increased federal spending on public projects, and directed a federal agency to buy surplus farm crops. In 1932, Hoover established the **Reconstruction Finance Corporation** to give emergency loans to banks and businesses, believing that cheap loans would spur business. He thought this expansion would eventually "trickle down" to the average American. However, Hoover's policies were seen as too little, too late.
- Americans found Hoover's lack of leadership frustrating. Many families lost their homes because they were unable to pay their mortgages. Some families were lucky enough to move in with friends or family. Others were forced to take up residence in shacks as their only form of shelter. Shanty towns of the homeless and unemployed, called "**Hoovervilles**," sprang up on the outskirts of cities. Between 1929 and 1933, about 100,000 American businesses failed. By 1932, at the end of Hoover's term, unemployment had reached 13 million people – nearly 25% of the nation's work force .



Franklin Roosevelt & the New Deal

- During the Great Depression, the greatest problem facing Americans was widespread unemployment. Franklin D. Roosevelt, the Governor of New York, was nominated as the Democratic candidate in the Presidential election of 1932. Roosevelt promised Americans a New Deal, to put them back to work. Voters were so frustrated with Hoover's inability to end the Great Depression that Roosevelt defeated Hoover in a landslide election.
- Roosevelt's New Deal was a major turning point in American history. The New Deal marked an end to the view that government and the economy should be completely separate. It established the principle that the federal government bears the chief responsibility for ensuring the smooth running of the American economy. The New Deal also permanently increased the size and power of the federal government.



A New Style of Leadership

- President Roosevelt saw the Depression as a national emergency. He believed it was the President's task to find a way back to prosperity. Roosevelt brought a new style of leadership to the Presidency. He assembled a group of talented people from leading American universities, known as the "Brain Trust," to serve under him. Then he told them to be as creative as possible in developing new strategies and programs to deal with the crisis.
- Roosevelt was an excellent communicator and frequently addressed the nation by radio. In these radio addresses to the American people, known as "fireside chats," he explained his policies in simple conversational terms. Roosevelt presented himself as an optimist in order to restore public confidence.



A New Style of Leadership

- At the age of 39, Roosevelt had been struck by polio. He had become unable to walk except with the use of crutches for short distances. His experiences in overcoming polio made him uniquely sympathetic to the sufferings of others, and taught him to be more patient in overcoming difficulties. This turned out to provide great training for meeting the challenges of the Depression.
- The President's wife, Eleanor Roosevelt, served as his eyes and ears by traveling throughout the country, and later around the world. A political activist, she spoke out strongly for women's rights, the cause of peace, and the poor.



Women in the Great Depression

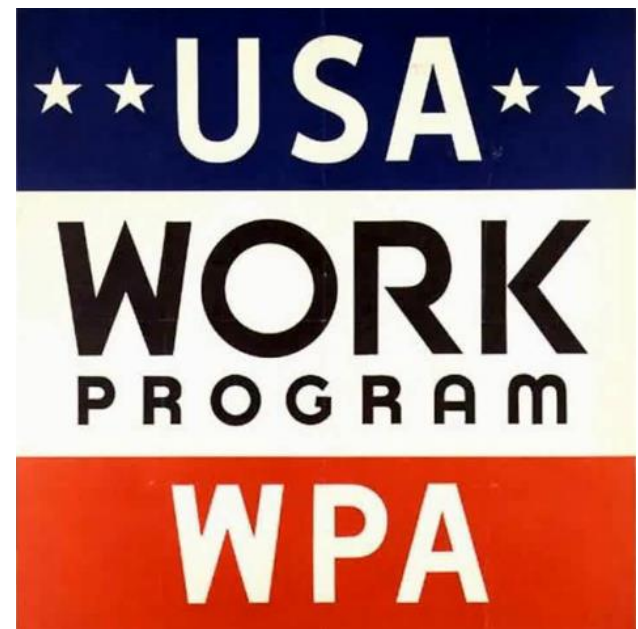
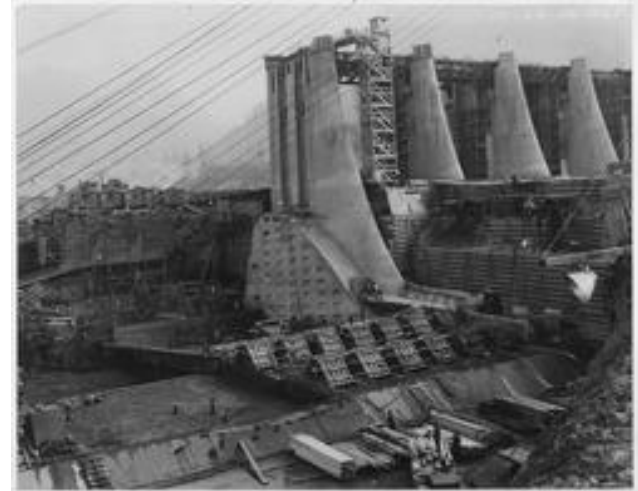
- Women often experienced the Depression as mothers and homemakers. While men tried to find new jobs, women had the quiet but demanding task of making ends meet - cooking, cleaning, and caring for children.
- In 1933, Eleanor Roosevelt rallied women with her book, *It's Up to the Women*. She called on them to pull their families through the crisis: "The women know that life must go on and the needs of life must be met and it is their courage which, time and again, have pulled us through worse crises than the present one."
- Another prominent woman reformer, Frances Perkins, became the first female member of the U.S. Cabinet when she was appointed Secretary of Labor in 1933. Perkins remained at this post for 12 years, overseeing the Civil Conservation Corps and the Public Works Administration. She played a key role in the passage of the Fair Labor Standards Act, the National Labor Relations Act, and the Social Security Act.



New Deal Legislation:

Relief, Recovery, Reform

- In his First Inaugural Address, President Roosevelt attempted to calm the American people, reassuring them that the "only thing we have to fear is fear itself." He also blamed the selfishness of bankers and financiers for the current crisis. As soon as Roosevelt took office, he called Congress into special session. Roosevelt then pushed through legislation that would have been difficult to pass in less critical times. The President immediately began to submit a flood of measures for Congressional approval. Virtually all of the important bills he submitted in these First Hundred Days were enacted by Congress. Roosevelt explained these New Deal measures in terms of the three R's - Relief, Recovery, and Reform.
- **Relief:**
 - Relief measures were short-term actions designed to tide people over until the economy recovered. They were especially important in the first years of the New Deal.
- **Relief to Homeowners & Farmowners:**
 - Many homeowners and farmers were unable to make payments on their mortgages (*money owed to a bank*). Banks seized their property and forced them out of their homes and farms. The government passed legislation making emergency loans available.



Relief

- **The Banking Crisis:**

- If depositors feared a bank was unsound, they would remove their funds. Often, this news would spread to others, causing bank customers to also withdraw their money before it was too late. These runs on banks were widespread during the early days of the Depression. Ten thousand banks had failed during the Great Depression. To stabilize the banking situation and restore consumer confidence, Roosevelt immediately declared a Bank Holiday, closing all of the nation's banks. Each bank was permitted to reopen only after government inspectors found the bank to be financially sound.

- **Relief for the Unemployed:**

- Over one-quarter of the nation's workforce was unemployed. There was no unemployment insurance, and many of the unemployed were without food or shelter. Roosevelt favored "work-relief," giving people emergency public jobs:

Federal Emergency Relief Act (1933) funded state and local governments to provide emergency relief, and enabled millions of people to be hired on "make-work" projects.

Civilian Conservation Corps (1933) gave jobs to young men, such as planting trees and cleaning up forests. Members of the CCC lived in camps and received free food. Most of their pay was sent to their parents.

"RELIEF" LEGISLATION DURING THE NEW DEAL

Public Works Administration (1933) created federal jobs by building public projects, such as schools, roads, courts, post offices, and bridges.

Works Progress Administration (1935) (WPA) created jobs by hiring artists, writers, and musicians to paint murals, produce plays, and create other artworks.

Recovery

- Roosevelt realized that the key to recovery was to stimulate demand. His recovery measures were designed to restore the economy by increasing incentives to produce and by rebuilding people's purchasing power.

Priming the Pump. Roosevelt believed in pouring money into the economy to get it working again. By putting government money into consumers' hands, they would spend more, increasing the demand for products. This would lead to more workers being hired, further increasing purchasing power and consumer demand.

"RECOVERY" MEASURES DURING THE NEW DEAL

National Recovery Administration (1933) asked businesses to voluntarily follow codes which set standard prices, production limits, and minimum wages. In 1935, the Supreme Court found the NRA unconstitutional because the federal government had no power to interfere with business activities conducted within a state.

Agricultural Adjustment Acts. In the first "AAA," the government paid farmers to plant less in the hope of increasing crop prices. In 1936, the Supreme Court declared the AAA unconstitutional. The second AAA (1938) succeeded in raising farm prices. Under this act, the government bought farm surpluses and stored them in warehouses until prices went up.

Reform

- Reform measures were aimed at remedying defects in the structure of the American economy in order to ensure that such a severe Depression would never strike again. Many reform measures were based on the belief that government should protect individuals against risks they could not handle on their own.

Federal Deposit Insurance Corporation (1933) insured bank deposits so that people would not lose their savings in the event of a bank failure.

"REFORM" LEGISLATION DURING THE NEW DEAL

Tennessee Valley Authority (1933) built 21 government-owned dams along the Tennessee River, controlling floods and producing electricity. Some feared the "TVA" as a form of socialism.

Securities and Exchange Commission (1934) was created to watch over the stock market, prevent fraud and guard against another stock market collapse.

National Labor Relations Act (1935), often called the **Wagner Act**, gave workers the right to form unions, to bargain collectively, and to submit grievances to a National Labor Relations Board.

Social Security Act (1935) was probably the most important measure of the New Deal. It provided workers with unemployment insurance, old age pensions, and insurance if they died early. Workers and their employers each paid new contributions to fund these benefits.

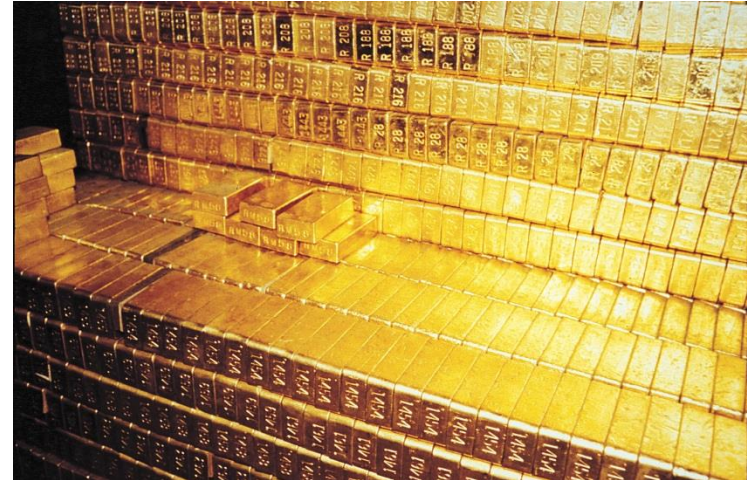
Monetary Policy

- In addition to his fiscal policies, Roosevelt also relied on monetary policy. Monetary policy refers to the government's ability to control how much money is in the economy - or the nation's money supply. Money is made up not only of dollars in circulation but also of bank deposits and credit. The money supply affects the overall amount of business activity. You should recall that the Federal Reserve Act (1913) established the Federal Reserve System, whose main role is to reduce swings in the economy by controlling the ability of banks to lend money, which affects money supply.
- **During an Economic Downturn:**
 - When there is an economic downturn, the Federal Reserve generally increases the amount of money in circulation. As money is pumped into the system, interest rates fall since banks wish to lend money. Businesses and individuals borrow more money because borrowing costs are less. Greater borrowing in the economy leads to increased spending. More spending in the economy stimulates greater production and employment.



Monetary Policy

- **During Times of Economic Prosperity:**
 - When the economy is prospering, prices rise as demand outstrips supply, workers demand higher wages, and investors pump money into speculative ventures. These rising prices are known as inflation. To reduce inflation, the Federal Reserve does just the opposite of what it does in hard times. It acts to reduce the money supply by limiting the amount of money available to banks. By limiting the amount of money available, interest rates go up. As a result, fewer Loans are made to businesses or individuals. With tighter money, people borrow and spend less, and the pace of economic activity is slowed.
- **The Gold Standard and Fiat Money:**
 - Since ancient times, gold and silver have provided two accepted forms of exchange. During the 1800s, the U.S. had a bi-metallic system of money. It was on the gold standard but silver was also traded. Use of the gold standard came to an end in 1933 when President Roosevelt issued an Executive Order outlawing the ownership of gold, except for jewelry. Roosevelt wanted people to rely on paper money, in order to expand the money supply and stimulate economic activity.
 - Today, most countries in the world, including the United States, use fiat money. Fiat money is printed paper currency. It has no intrinsic value, except when it is accepted as a medium of exchange.



Impact of the New Deal on Labor

- The greatest growth in union membership in American history took place in the 1930s as a result of the New Deal. Roosevelt sought to raise the wages of labor to help fight the Depression.

Norris-LaGuardia Act (1932) prohibited the use of injunctions against peaceful strikes.

NEW DEAL LEGISLATION FAVORABLE TO LABOR

National Industrial Recovery Act (1933) guaranteed workers the right to form unions. Employers could not refuse to hire union members. This act was declared unconstitutional in 1935, but was replaced by the Wagner Act.

Wagner Act (1935) greatly stimulated the unionization of American workers by protecting the right of unions to bargain collectively with their employers. Union membership grew rapidly with this new law.

Reactions to the New Deal

- Although the New Deal was generally popular, Roosevelt did face criticism. Some of his critics proposed alternative approaches to dealing with the Depression. Conservative critics like the Liberty League, charged Roosevelt with being a "traitor to his class," and attempting to establish a popular dictatorship.
- Radical critics felt that Roosevelt did not go far enough in reforming the American economy. Dr. Francis Townsend wanted to give citizens over 65 years old a pension of \$200 a month, to be spent within the month. Townsend believed these pensioners would soon spend the money and this would create new jobs, bringing an end to the Depression.
- U.S. Senator and former Governor of Louisiana, Huey Long, promised to give each American family an income of \$5,000 a year, to be paid for by taxing the rich. Long was assassinated before he was able to mount his campaign against FDR.
- Father Coughlin gave radio addresses to millions, calling for the nationalization of banks and utilities. Coughlin was also violently anti-Semitic (*prejudiced against Jewish people*). Coughlin found an audience among nativists and those who distrusted Wall Street bankers. Eventually, the Catholic Church ordered an end to Coughlin's broadcasts.



Supreme Court & the New Deal

- The greatest threat to the New Deal came from the U.S. Supreme Court. In 1935 and 1936, the Court ruled that both the National Industrial Recovery Act (NIRA) and the first Agricultural Adjustment Act (AAA) were unconstitutional.
- The National Industrial Recovery Act gave the President the power to set up "codes of fair practices" for businesses involved in intrastate (*within a state*) commerce. The Schechter Poultry Company was convicted of failing to obey the act. They appealed their conviction, claiming the NIRA was unconstitutional. In *Schechter Poultry v. U.S.* (1937) the Supreme Court ruled that even during a national crisis, Congress could not give the President more powers than those granted in the Constitution.



Roosevelt's Court-Packing Scheme (1937)

- After *Schechter*, Roosevelt feared that the Court might declare other New Deal legislation unconstitutional. He believed that the Justices -- most of whom were over 70 years old -- were out of touch with the needs of the nation. In 1937, he proposed a plan to allow the President to add a new appointment to the Supreme Court for each Justice over 70 ½ years old.
- If adopted, the plan would have given Roosevelt the right to appoint six Justices, giving him control over the Court. His court-packing scheme was widely viewed as an attempt to upset the traditional separation of powers. Despite Roosevelt's popularity, his court-packing scheme was condemned by the public and rejected by Congress. However, after this challenge to the Court, the Justices generally stopped overruling New Deal legislation.



Impact of the New Deal on State & Federal Governments

- Under Roosevelt's New Deal, the power of the federal government increased dramatically. The federal government moved beyond the regulatory role it had under the Progressives.
- The responsibility of government became more than just preventing dishonesty and maintaining safety. Government now had a positive responsibility to make sure the national economy ran smoothly and efficiently. Agencies and agency regulations made it possible for the government to closely control its citizens' private actions. Taxes rose dramatically to fund these new government programs.
- The New Deal greatly expanded the government's role in areas of social and economic life it had formerly not been involved with. The relationship between the government and individual citizens changed with the creation of these federal regulatory agencies. Many states also implemented their own versions of the New Deal, adding to the general increase in the involvement of government in the lives of ordinary Americans.
- Although some New Deal programs were eliminated after World War II, others remained. New Deal programs established a legacy of government agencies, regulations, and procedures that continued to remain with us today.

