CHAPTER 23
Managing the Great Depression, Forging the New Deal, 1929–1939
31st President 1929 to 1933
- Republican
- Graduated from Stanford University 1895
- Occupation: Engineer
- Food Administration Director during WWI
- Secretary of Commerce 1921-28

- Republican Whiz Kid
- One of most prepared to be President ever
Stock Market Crash
Black Tuesday, Oct. 23, 1929
Hoover was blamed for not providing "direct relief" to help Americans? WHY?
US Govt. should not provide "direct relief"
laissez faire

Rugged individualism: Americans are self-sufficient and would work themselves out of this depression through hard work and determination.

Charitable organizations: Churches, volunteers and people helping one another.
IV. From Boom to Bust

C. The Coming of the Great Depression

1. Causes = All based on the ability to SPEND
   - False Demand (Stock Market and the Margin)
   - Speculation = All parts of the economy
   - Bubble bursts……..
   - Overproduction
   - Lack of a large Middle Class and equal distribution of wealth
   - Strict adherence to Gold Standard

- Stock Market Crashes……..uh oh
The rapid increase of stock prices encouraged:

- **Speculation**, the practice of making high-risk investments in hopes of getting a huge return.
- **Buying on margin**, the practice of allowing investors to purchase a stock for only a fraction of its price (CREDIT) and borrow the rest at high interest rates.
  - When Stock Market begins to crash banks call in loans
  - To pay back banks investors sold stocks for less than they purchased
  - Loose money and go into debt
  - No US Government regulations on the stock market or margin buying.
The Great Crash

- 1920’s- A great time for stocks – Through the roof!......False Demand was fueling fire
- By 1929 - No more money to invest and demand goes down (END OF FALSE DEMAND)
- Sept= gradual sell off (Snowball Effect)
  - Demand goes down= Price ?
- Prices drop
  - margin calls made
  - other investors sold and demand goes down so......
  - prices fall – people sell – demand falls – prices fall.....
  - Human Emotion and Panic!
- Unending downward “DEATH” spiral
The Great Crash cont…

• Crash!
  – On October 29th, Black Tuesday
    • stocks lost between $10-$15 billion. This was one third of its total value. PANIC!
  – By November= Loss of $30 billion (2/3 value drop)
Black	
  
  Tuesday-­‐
  
  Stocks	
  
  Drop
IV. From Boom to Bust

C. The Coming of the Great Depression

2. Effects

- Industrial Production = Down 37%
- Unemployment = 25%
- Bank Failures = 4,000
- Foreclosures

-A Downward Death Spiral……..
Ramifications of the Stock Market

• Banks in a Tailspin
  – Banks weakened in two ways:
    • 1st, Banks had lent money to stock speculators.
    • 2nd, Many banks had invested depositors money into the stock market themselves.
    • Known as “double dipping”= Loses your money and their money........
  
  – Both cause banks to lose huge $$ when SM plummets.
  – Banks =No money for loans.

  – Credit Crunch ensues. No $ available for investment.
## Comparison - Then and Now

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<tr>
<th>Category</th>
<th>2014</th>
<th>Worst</th>
<th>1930’s</th>
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<tr>
<td>Unemployment</td>
<td>6.9%</td>
<td>10.1/11.6/16.8</td>
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<td>(7.3/9.1%)</td>
<td>(7.3/9.1%)</td>
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<tr>
<td>Wages</td>
<td>+2-3%</td>
<td>-6%</td>
<td>-42%</td>
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<tr>
<td>GDP</td>
<td>+4.1%</td>
<td>-3-4%</td>
<td>-50%</td>
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<td>Dow Jones</td>
<td>+22%</td>
<td>-50%</td>
<td>-89%</td>
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<tr>
<td>Consumer Debt</td>
<td>25%</td>
<td>30%</td>
<td>9.6%</td>
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<tr>
<td>Bank Closures</td>
<td>24 in 2013</td>
<td>400 (07-11)</td>
<td>12,000</td>
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<tr>
<td>Exports</td>
<td>+5%</td>
<td>-5%</td>
<td>-80%</td>
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<td>Interest Rates</td>
<td>3-4.5%</td>
<td>3-6%</td>
<td>Up</td>
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<td>Mortgage Foreclosures Down</td>
<td>%15</td>
<td>20%</td>
<td>40-50%</td>
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<td>$250,000</td>
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<td>Fed Safety Nets</td>
<td>FDIC</td>
<td>None</td>
<td>Soc Sec/Unemployment Insurance/SEC</td>
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I. Early Responses to the Depression, 1929–1932

A. Enter Herbert Hoover

1. American traditions= Classic Liberalism
   -Economics outcomes = Individualism
   -Voluntary actions and self regulation would work

1) Keep Calm and Carry On……..

2) Voluntary Efforts and Public Works

3) Stimulus= Reconstruction Finance Corporation (RFC) hopes it will “Trickle Down”

Follows traditional “Game Plan”

=Reality= There is no game plan for this one…
Hoover Dam

- 1931-1936
- Nevada/Arizona Border
- 3000 workers (112 die)
- Creates Lake Mead
I. Early Responses to the Depression, 1929–1932

A. Enter Herbert Hoover

2. Hoover’s failures= Old Game Plan
   -Adheres to **Gold Standard**= Cuts spending
   -**Hawley-Smoot Tariff**= Raises tariffs
   -Limited Gov and Private Charity will solve it

3. Reality= Hoover does more than anyone had ever tried in an economic downturn....but he takes the blame.
   -Too Little Too Late
   -Baby Steps
   -Can’t Think Outside the Box
MISTAKES- How the Government could have helped!

• The Loss of Export Sales and overseas Markets
  – Where can we sell goods? Overseas! Yeah! Oh no……
  – 1930- Congress= Hawley-Smoot Tariff
    • Tariff highest level in US history= Makes our goods MORE expensive!
  – Foreign Nations Respond= Raise their Tariffs (Take that!) Get Revenge on us…….
  – No where else to sell our goods.
  – Possible other markets are now closed!
  – WE DID THE OPPOSITE OF WHAT WE SHOULD HAVE!
More Mistakes

• Mistakes by the Federal Reserve Bank
  – Gas Pedal and Brake
  – Interest Rate Mistakes:
    – Good times (1920’s)- FRB should have *raised* rates (Stop inflation)
    – Instead it *lowered*: banks then take risky loans and business gets wrong picture of economy and expand. Both hurt economy. (Bloated economy)
    – Depression= FRB raised interest rates (WRONG)
      • This makes it harder to get a loan and makes less $ available.
    – FRB does *opposite* of what it should have done.
I. Early Responses to the Depression, 1929–1932

B. Rising Discontent

1. Hoovervilles = Hoover takes the blame
   - Resisting of foreclosures
   - Farmer’s Holiday Association = Cut supplies of food
   - Labor Unrest

=Society on the brink of disaster
PSYCHOLOGICAL EFFECTS OF THE GREAT DEPRESSION

- People lost their homes, possessions and property.
- Families lived in **Hoovervilles** or shantytowns.
No hope, despair, emotional pain, depression and guilt.

When you have millions of "unhappy" men out of work, you have the potential for social chaos.
Farmers dumping milk - 1931
I. Early Responses to the Depression, 1929–1932

B. Rising Discontent

2. The Bonus Army

- 1932= 15,000 unemployed WW1 Veterans march on Washington and demand their pension

-Camp in D.C. and become a nuisance; Bonus is denied by Congress

- Offers to send them home but eventually Hoover uses the US Army to evict them (Douglas MacArthur)
- He can’t recover from the images…….
Bonus March on Capitol Steps
Police Attack Bonus Marcher Camp
Battle of Washington

- July 28, 1932
- President Hoover orders the army to remove Bonus Army from Washington, D.C.
- General Douglas MacArthur, later a WWII hero, was part of removing the Bonus Veterans.