

SECTION

2

THE GREAT DEPRESSION: 1929-1940

In this section you will read about the worst economic period in American history, which started with the Stock Market Crash of 1929 and lasted until 1940.

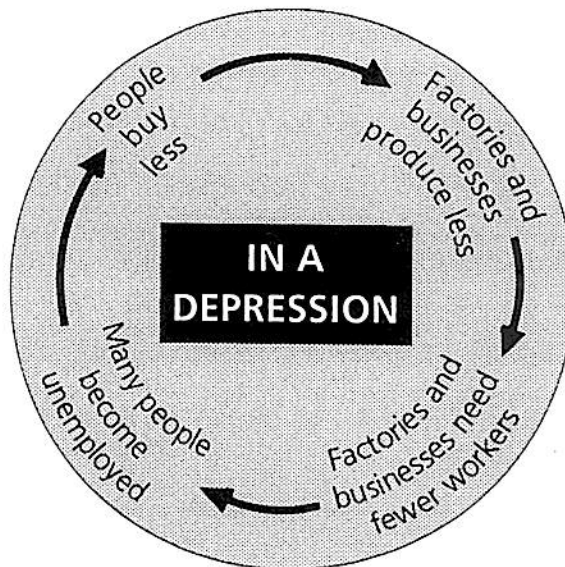
THINK ABOUT IT

When you hear the term the Great Depression, what images come to mind? _____

Important Terms and Concepts: As you read this section, look for the following:

- ◆ Business Cycle
- ◆ Great Depression
- ◆ Stock Market Crash
- ◆ Dust Bowl

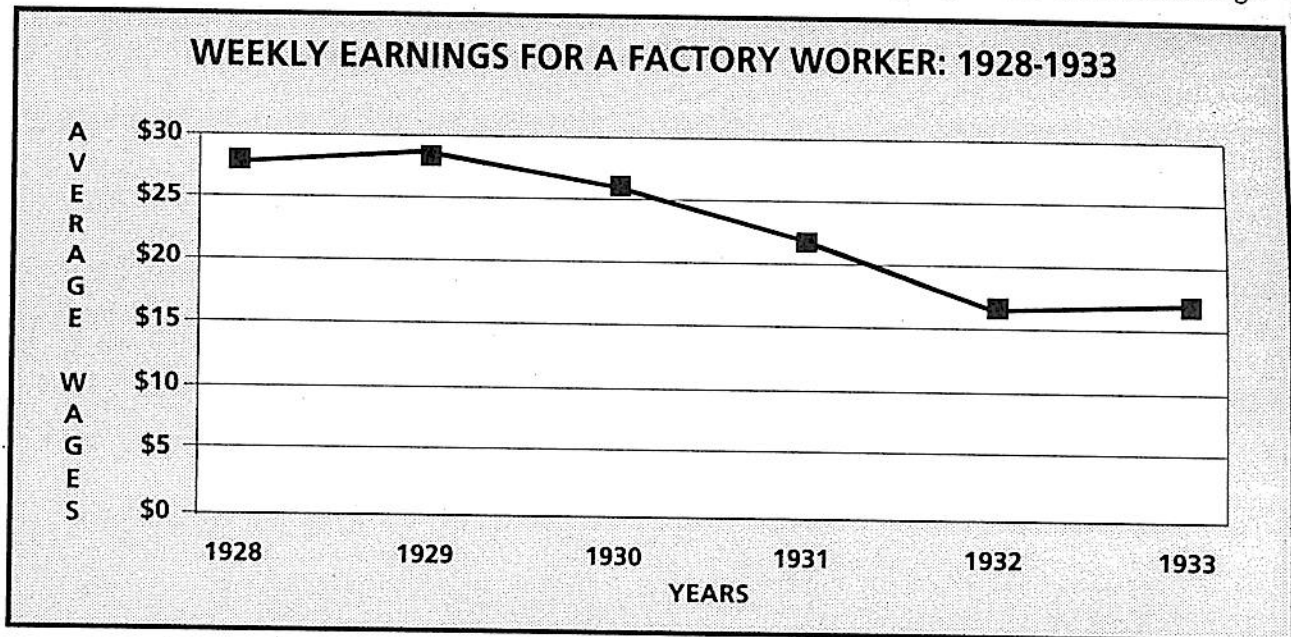
- Market economies go through good and bad periods that repeat themselves over time. Economists call these up-and-down periods the **business cycle**. In the good times, businesses are growing and it is easy to find a job. The bad times are called depressions, when many businesses close down and people lose their jobs for a long period of time. Because people have less money, less goods are bought. This leads to more and more businesses closing, and more and more people losing their jobs. One of these down periods, the **Great Depression**, was the worst economic period in the history of the United States.



THE STOCK MARKET CRASH

In 1929, the prices of stocks on the New York Stock Exchange turned sharply downward. On October 29th the market "crashed," as prices went into free fall. Everyone wanted to sell stocks and nobody wanted to buy them. Within a few days the total market value of stocks fell by more than 30 billion dollars. The Stock Market Crash marked the beginning of the Great Depression. Corporations found it hard to raise money, and many went out of business. As a result, people lost their jobs. Unemployed people had little money to spend, so more companies went out of business. People went hungry, and some died. Millions depended on soup kitchens and bread

provided by private charities. People who lost their money in the stock market could not repay their loans to banks; this forced banks to close, and thousands of people lost their life savings.



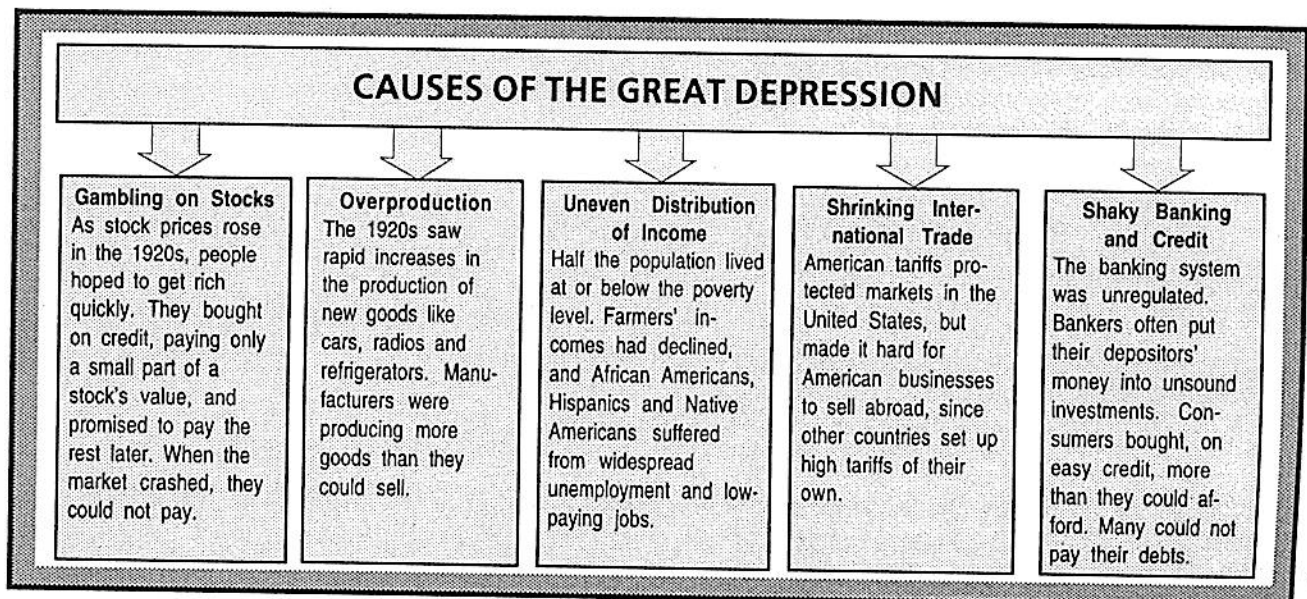
Source: Historical Statistics of the United States

CAUSES OF THE GREAT DEPRESSION

The crash of the stock market in 1929 set off a chain reaction that toppled the American economy and became a national nightmare. Soon the Great Depression spread to Europe, showing that conditions in one part of the world are affected by conditions in another part. This connection is known as **global interdependence**.

FACTORS LEADING TO THE GREAT DEPRESSION

In addition to the Stock Market Crash, many underlying factors helped cause the Great Depression:



Dorothea Lange, Photographer**FOCUS
ON THE
ARTS**

When the Depression hit, Dorothea Lange was working as a photographer in San Francisco. Soon after, she obtained a job as a photographer for the Farm Security Administration. She became famous for capturing the despair of everyday life and the brutal effects of the Depression. One of her best

known photos, "Migrant Mother," (see page 182) shows a poverty-stricken young woman holding her exhausted children. This picture was selected by the University of Missouri as one of the fifty best photographs of the twentieth century.

◆ THE DUST BOWL

Thousands of farmers in the Great Plains were hurt by a series of **droughts** (*long periods without rain*) in the 1930s. With no rain, crops dried up. The soil turned to dust, and was swept up by the winds. Dust storms blew across the West, destroying harvests and burying homes. Farmers, unable to grow enough crops to pay their mortgages, were forced to leave their farms. Over one million farmers were driven from their lands by the "dust bowl." Many moved west to California.



PRESIDENT HOOVER FAILS TO END THE DEPRESSION

President Hoover felt strongly that government should not interfere in the economy. He believed the economy would eventually fix itself. Hoover thought that when prices got low enough, people would start to buy again, leading businesses to start hiring more workers. Therefore, at the beginning of the Great Depression, President Hoover did not respond to requests that the federal government provide money for the unemployed and needy. Hoover felt that voluntary and private organizations would provide enough help. Eventually, when things did not get better, Hoover changed his mind. He met with business leaders and asked them not to lay off

workers; he cut taxes; he increased spending on projects in which the unemployed could work. He established the **Reconstruction Finance Corporation** to give emergency loans to banks and businesses. Unfortunately, Hoover's policies were too little, too late. The amount of funds which he made available were not enough to deal with the problem. Many Americans became frustrated with Hoover for failing to stop the Depression. The shanty towns that sprang up all across America, sheltering unemployed homeless people, became known as "Hoovervilles."

SUMMING UP: THE GREAT DEPRESSION: 1929 — 1940

The period of the Great Depression saw Americans facing the most difficult of times. A variety of factors brought about the Great Depression. Once it began, millions of people became unemployed and faced homelessness and starvation. The public became frustrated when President Hoover did not seem to be doing enough to stop things from getting worse.

THINKING IT OVER

Now that you have read this section, if someone mentioned the Great Depression, what things might come to your mind?

1. _____
2. _____

CHECKING YOUR UNDERSTANDING

Directions: Complete the following cards. Then answer the multiple-choice questions.

STOCK MARKET CRASH

Why did it happen? _____

What impact did the crash have on the nation?

THE GREAT DEPRESSION

Define it: _____

What were its major causes? _____

- | | | | | | |
|---|---------------------|---------------------|------------|--------------|--|
| <p>1 Which was one of the basic causes of the Great Depression?</p> <ul style="list-style-type: none">1 over-extension of credit2 labor shortages3 shortages of consumer goods4 a rise in oil prices <p>2 Which situation is most likely to develop during a depression?</p> <ul style="list-style-type: none">1 new jobs are created by private businesses2 the government raises taxes to all time highs3 there is a sharp decrease in available jobs4 many new companies open for business <p>3 An economy suffering from a depression is one in which there is a high rate of</p> <table border="0"><tr><td>1 employment</td><td>3 business failures</td></tr><tr><td>2 interest</td><td>4 production</td></tr></table> | 1 employment | 3 business failures | 2 interest | 4 production | <p>4 Information on subjects such as business cycles, the Dust Bowl, and Hoovervilles would be found in a history textbook section on</p> <ul style="list-style-type: none">1 the Abolitionist Movement2 World War I3 the Roaring Twenties4 the Great Depression <p>5 When the Great Depression first began, President Hoover believed that</p> <ul style="list-style-type: none">1 depressions are a useful part of economic life2 the government should provide jobs for the unemployed3 voluntary organizations should provide relief to the needy4 the federal government should give food and shelter to the poor |
| 1 employment | 3 business failures | | | | |
| 2 interest | 4 production | | | | |

SECTION

3

FRANKLIN D. ROOSEVELT AND THE NEW DEAL

In this section you will read about the new programs President Franklin D. Roosevelt introduced to lift the nation out of the Great Depression. Roosevelt's "New Deal" greatly increased the size, power and responsibilities of the federal government.

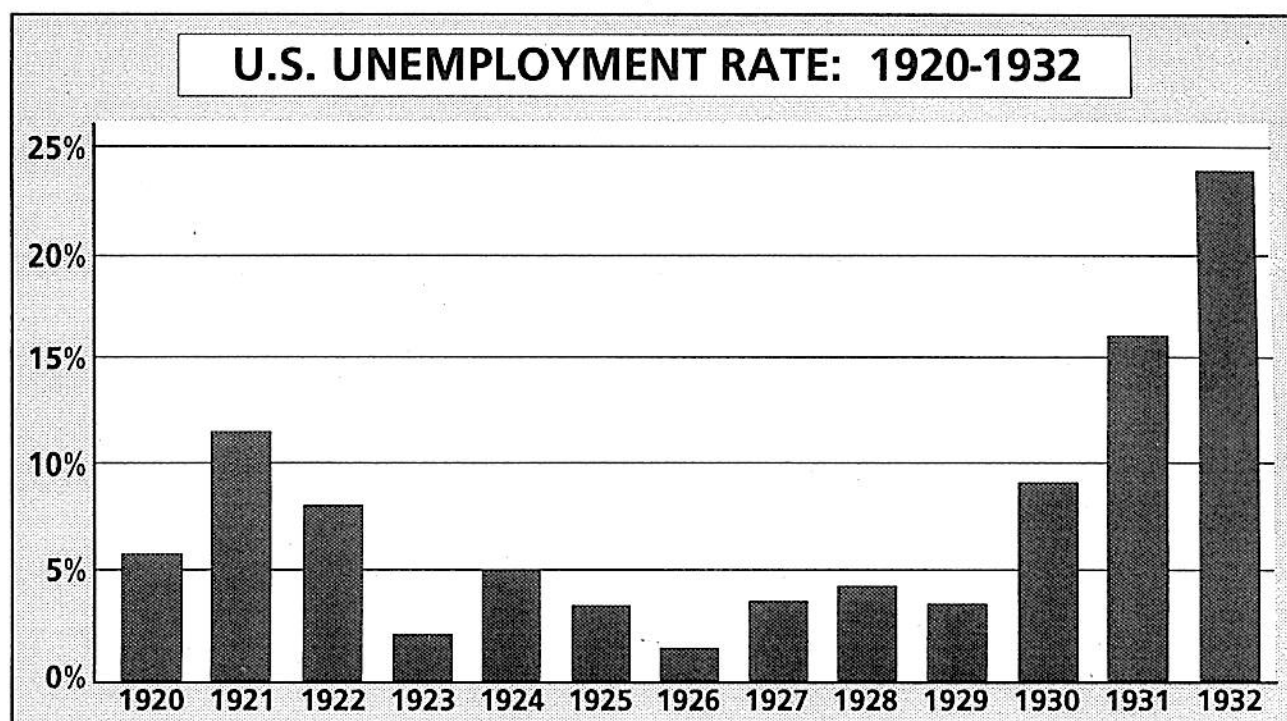
THINK ABOUT IT

If you had been President during the Great Depression, what measures would you have taken to improve conditions in the nation?

Important Terms and Concepts: As you read this section, look for the following:

- | | |
|-----------------------|-----------------------------------|
| ◆ New Deal | ◆ Federal Deposit Insurance Corp. |
| ◆ Social Security Act | ◆ Court Packing Plan |

During the Great Depression, the main problem facing Americans was widespread unemployment. In the 1932 election, Democratic candidate Franklin D. Roosevelt promised that no one would starve, and that new programs would put people back to work. Roosevelt easily defeated Herbert Hoover in the election.



THE NEW DEAL INCREASES GOVERNMENT RESPONSIBILITIES

Over thirteen million people were jobless; thousands stood on bread lines waiting for a free meal; banks were failing; and hundreds of farmers were losing their farms for failure to pay their mortgages. Under these conditions, President Franklin D. Roosevelt (*sometimes called F.D.R.*) took office in March, 1933. Roosevelt saw the Great Depression as a national emergency as serious as any war. He believed that the President's task was to find a way back to prosperity. Unlike Hoover, F.D.R. believed that the federal government was primarily responsible for managing the nation's economy. He immediately began to push through a series of laws designed to get people and businesses back to work. Roosevelt called his program the **New Deal**. It was a major turning point in American history. It established the idea that the federal government has the major responsibility for making the American economy run smoothly. ♦

NEW DEAL LEGISLATION: RELIEF, RECOVERY, REFORM

F.D.R. had a new way of doing things. He brought together a group of extremely talented people as advisers, who suggested new ways of dealing with the economy. Roosevelt explained his ideas to the American people over the radio in informal talks known as "**fireside chats**." He tried to build people's confidence by telling them things would get better, hoping that his listeners would begin buying and investing again.

His New Deal legislation was new, both in its size and its idea that the federal government had to take a more active role in running the economy. Roosevelt explained the New Deal measures in terms of three R's: "Relief, Recovery, and Reform."

RELIEF, RECOVERY, AND REFORM

RELIEF measures were short-term steps designed to tide people over until the economy recovered. There was no unemployment insurance as there is today, and many were without food or shelter. They needed immediate help. Giving people money to spend also increased the demand for products.

- **Civilian Conservation Corps** (1933) provided relief by giving young people jobs, such as planting trees, cleaning up forests, and draining swamps.
- **Public Works Administration** (1935) provided relief by giving people jobs building public works projects such as schools, courthouses, roads, post offices, and bridges.

RECOVERY measures were designed to stimulate production and restore the economy by increasing production incentives and rebuilding people's purchasing power.

- **Agricultural Adjustment Act** (1933) promoted recovery by helping farmers by setting limits on crop production.
- **National Recovery Administration** (1933) promoted recovery by drawing up codes for businesses which set prices, limits on production, a reduced work week and a minimum wage. These codes were later declared unconstitutional.

REFORM measures sought to correct defects in the economy to ensure that a depression would never strike again. Reforms protected people against risks they could not handle on their own.

- **Federal Deposit Insurance Corporation (F.D.I.C.)** (1933) sought to provide reform by insuring bank deposits so that people would not worry about losing their savings in the event of a bank failure.
- **Social Security Act** (1935) insured Americans against unemployment and provided them with limited retirement benefits. (See *The Constitution At Work*, page 213.)

REACTIONS TO THE NEW DEAL

POPULARITY OF F.D.R. AND THE NEW DEAL

Although the New Deal did not immediately end the Great Depression, people were happy to see the President doing something. Things gradually did get better, although the Depression did not end until 1940. Some business owners opposed F.D.R., accusing him of acting like a dictator. They said he gave the government too much power over the economy. But Roosevelt was re-elected by landslides in 1936, 1940 and 1944 — the only President ever elected for more than two terms.



One of F.D.R.'s "Fireside Chats"

ROOSEVELT'S COURT PACKING PLAN (1937)

The greatest threat to the New Deal came from the Supreme Court. In 1935-1936, the Court ruled two New Deal programs — the N.R.A. and A.A.A. — unconstitutional. Roosevelt feared the Court might soon declare all of his New Deal programs unconstitutional. In the 1930s, as today, the Supreme Court consisted of nine Justices. Roosevelt believed that if he could appoint more Justices, his programs would be safe. Most of the Justices were relatively old, and in 1937 Roosevelt proposed that he be allowed to appoint one new Justice for each one 70 years or older. This would have given his appointees control of the Court. Most people saw the plan as a dangerous attempt to undercut the independence of the judiciary and to upset the traditional separation of powers. As a result, Congress defeated the plan. Although Roosevelt failed to “pack” the Supreme Court, the Justices stopped overturning New Deal legislation.

Was the overall impact of the New Deal on American society good or bad?

POINT	COUNTERPOINT
<ul style="list-style-type: none"> • Reduced unemployment and gave immediate relief to those without food or shelter. • Completed valuable public works projects like roads, buildings, bridges and dams. • Established a “safety net” to protect Americans from financial ruin. • Introduced new agencies, like the F.D.I.C. to protect depositors from bank failures. • Established the principle that the federal government should oversee the smooth running of the United States economy. 	<ul style="list-style-type: none"> • Increased the nation's indebtedness. • Increased taxes to pay for the new programs. • Established the precedent that the national government could lower unemployment by spending more taxpayers' money. • Interfered in the operation of the free market by increasing federal government regulation of business. • Increased the size of the federal bureaucracy. • Undermined the role of individuals by reducing the incentive to work.

SUMMING UP: F.D.R. AND THE NEW DEAL

Franklin D. Roosevelt was a very popular president. His New Deal programs greatly changed the role of the federal government in the economy, giving it new powers and responsibilities. F.D.R.'s opponents objected to greater government interference in the free market economy. However, Roosevelt was elected to four terms because he gave people confidence that things were getting better. The Supreme Court overturned some early New Deal legislation, but when Roosevelt tried to “pack” the Court with more Justices, Congress defeated the plan.

THINKING IT OVER

What additional steps would you have taken, besides those of the New Deal, to help bring the United States out of the Great Depression?
