

Great depression



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The Great Depression was the worst economic decline ever in U. S. history.

It began in late 1929 and lasted about a decade. Throughout the 1920s, many

factors played a role in bringing about the depression; the main causes were the

unequal distribution of wealth and extensive stock market speculation.

Money was

distributed unequally between the rich and the middle-class, between industry

and agriculture within the United States, and between the U. S. and Europe.

This

disproportion of wealth created an unstable economy. Before the Great

Depression, the "roaring twenties" was an era during which the United

States prospered tremendously. The nation's total income rose from \$74.3 billion

in 1923 to \$89 billion in 1929. However, the rewards of the "Coolidge

Prosperity" of the 1920's were not shared evenly among all Americans. In

1929, the top 0.1 percentage of Americans had a combined income equal to the

bottom 42%. That same top 0.1 percentage of Americans in 1929 controlled 34% of

all savings, while 80% of Americans had no savings at all. Automotive industry

tycoon Henry Ford provides an example of the unequal distribution of wealth

between the rich and the middle-class. Henry Ford reported a personal income of

\$14 million in the same year that the average personal income was \$750.

This

poor distribution of income between the rich and the middle class grew

throughout the 1920's. While the disposable income per capita rose 9% from 1920

to 1929, those with income within the top 1-percentage enjoyed an extraordinary

75% increase in per capita disposable income. These market crashes, combined

with the poor distribution of wealth, caused the American economy to overturn.

Increased manufacturing output throughout this period created this large and

growing gap between the rich and the working class. From 1923-1929, the average

output per worker increased 32% in manufacturing. During that same period of

time average wages for manufacturing jobs increased only 8%. Thus, wages increased at a rate one fourth as fast as productivity increased. As production

costs fell quickly, wages rose slowly, and prices remained constant, the bulk benefit of the increased productivity went into corporate profits. In fact, from 1923-1929, corporate profits rose 62% and dividends rose 65%. The federal government also contributed to the growing gap between the rich and middle-class. Calvin Coolidge's administration (and the conservative-controlled

government) favored business, and consequently those that invested in these

businesses. An example of legislation to this purpose is the Revenue Act of 1926, signed by President Coolidge on February 26, 1926, which reduced federal

income and inheritance taxes dramatically. Andrew Mellon, Coolidge's Secretary

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of the Treasury, was the main force behind these and other tax cuts throughout

the 1920's. Even the Supreme Court played a role in expanding the gap between

the social/economic classes. In the 1923 case *Adkins v. Children's Hospital*, the

Supreme Court ruled minimum-wage legislation unconstitutional. The large and

growing disproportion of wealth between the well to do and the middle-income

citizens made the U. S. economy unstable. For an economy to function properly,

total demand must equal total supply. In an economy with such different distribution of income, it is not assured that demand will equal supply.

Essentially, what happened in the 1920's was that there was an oversupply of

goods. It was not that the surplus products of industrialized society were not wanted, but rather that those whose needs were not satisfied could not afford

more, whereas the wealthy were contented by spending only a small portion of

their income. Three quarters of the U. S. population would spend essentially all

of their yearly incomes to purchase consumer goods such as food, clothes, radios, and cars. These were the poor and middle class: families with incomes

around, or usually less than, \$2, 500 a year. The bottom three quarters of the

population had a collective income of less than 45% of the combined national

income; the top 25% of the population took in more than 55% of the national income. Through this period, the U. S. relied upon two things in order for the

economy to remain even: luxury spending, investment and credit sales. One solution to the problem of the vast majority of the population not having enough

money to satisfy all their needs was to let those who wanted goods buy products

on credit. The concept of buying now and paying later caught on quickly. By the

end of the 1920s, 60% of cars and 80% of radios were bought on installment credit. Between 1925 and 1929 the total amount of outstanding installment credit

more than doubled from \$1.38 billion to around \$3 billion. Installment credit allowed one to “telescope the future into the present”, as the

President’s Committee on Social Trends noted. This strategy created artificial demand for products which people could not ordinarily afford. It put off the day

of reckoning, but it made the downfall worse. By this telescoping, when the future arrived, there was little to buy that had not already been bought.

People

could no longer use their regular wages to purchase whatever items they did not

have yet, because so much of their wages went to paying back past purchases. The

U. S. economy was also reliant upon luxury spending and investment from the rich

to stay afloat during the 1920’s. The significant problem was based upon the wealthy’s confidence in the U. S. economy. If conditions were to take a downturn

(as they did when the market crashed in 1929), this spending and investment

would slow to a halt. While savings and investment are important for an economy

to stay balanced, at excessive levels they are not good. Greater investment usually means greater productivity. However, since the rewards of the increased

productivity were not being distributed equally, the problems of income distribution were exacerbated. Poor distribution of wealth within our nation was

not limited to only social/economic classes, but to entire industries. In 1929, a mere 200 corporations controlled approximately half of all corporate wealth.

While the automotive industry was thriving in the 1920's, some industries, agriculture in particular, were declining steadily. In 1921, the same year that Ford Motor Company reported record assets of more than \$345 million, farm prices

plummeted, and the price of food fell nearly 72% due to a huge surplus. While

the average per capita income in 1929 was \$750 a year for all Americans, the average annual income for someone working in agriculture was only \$273. The prosperity of the 1920's was simply not shared among industries evenly. In fact, most of the industries that were prospering in the 1920's were in some way linked to the radio industry or to the automotive industry. The automotive industry was the active force behind many other booming industries in the 1920's. By 1928, with over 21 million cars on the roads, there was roughly one car for every six Americans. The first industries to prosper were those that made materials for cars. The booming steel industry sold roughly 15% of its products to the automobile industry. The nickel, lead, and other metal industries capitalized similarly. The new closed cars of the 1920's benefited the glass, leather, and textile industries greatly. And manufacturers of the rubber tires that these cars used grew even faster than the automobile industry itself, for each car would probably need more than one set of tires over the

course of its life. The fuel industry also profited and expanded. Companies such as Ethyl Corporation made millions with items such as new “ knock-free” fuel additives for cars. In addition, “ tourist homes” (hotels and motels) opened everywhere. With such a wealthy upper class, many luxury hotels were needed. Lastly, and possibly most importantly, the construction industry benefited tremendously from the automobile. With the growing number of cars, there was a big demand for paved roads. While Americans spent more than a \$1 billion each year on the construction and maintenance of highways, and \$400 million annually for city streets, the construction industry grew by \$5 billion dollars, nearly 50%. However, the automotive industry affected construction far more than that. The automobile had been central to the urbanization of the country in the 1920’s because so many other industries relied upon it. With

urbanization came the need to build many more apartment buildings, factories,

offices, and stores. Also prospering during the 1920's were businesses dependent

upon the radio business. Radio stations, electronic stores, and electricity companies all needed the radio to survive. These businesses relied upon the constant growth of the radio market to expand and grow themselves. By 1930, 40%

of American families had radios. In 1926, major broadcasting companies started

appearing, such as the National Broadcasting Company. The advertising industry

was also becoming heavily reliant upon the radio both as a product to be advertised, and as a method of advertising. Several factors lead to the concentration of wealth and prosperity into the automotive and radio industries.

First, during World War I both were significantly improved upon. Both had existed before, but radio had been mostly experimental. Due to the demands of

the war, by 1920 automobiles, radios, and the parts necessary to build these
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things were being produced in large quantities; the work force in these

industries had been formed and had become experienced. Manufacturing plants were

already in place. The foundation existed for the automotive and radio industries

to take off. Second, due to federal government's easing of credit, money was

available to invest in these industries. The federal government favored the new

industries as opposed to agriculture. During World War I the federal government

had subsidized farms, and paid absurdly high prices for wheat and other grains.

The federal government had encouraged farmers to buy more land, to modernize

their methods with the latest in farm technology, and to produce more food.

This

made sense during the war when war-ravaged Europe had to be fed too.

However as

soon as the war ended, the U. S. bluntly stopped its policies to help farmers.

During the war the United States government had paid an unheard of \$2 a bushel

for wheat, but by 1920 wheat prices had fallen to as low as 67 cents a bushel.

Although modest attempts to help farmers were made in 1923 with the Agricultural

Credits Act, farm and food prices tumbled and farmers fell into debt. The problem with such heavy concentrations of wealth and such massive dependence

upon essentially two industries is similar to the problem with few people having

too much wealth. The economy was reliant upon the radio and automotive

industries to expand, grow, and invest in order to prosper. If those two

industries were to slow or stop, so would the entire economy. The economy

prospered greatly in the 1920's. This prosperity was not balanced between

different industries, when those industries that had all the wealth concentrated

in them slowed, the whole economy did. The fundamental problem with the

automobile and radio industries was that they could not expand because people

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could and would buy only so many cars and radios. When the automotive and radio

industries went down all their dependents, essentially all of American industry,

fell. Because it had been ignored, agriculture, which was still a large segment

of the economy, was already in ruin when American industry fell. Large-scale

international wealth distribution problems was a last major uncertainty the

American economy had to deal with. While America was prospering in the 1920's,

European nations were struggling to rebuild themselves after the damage of war.

During World War I the U. S. government lent its European allies \$7 billion, and

then another \$3.3 billion by 1920. By the Dawes Plan of 1924, the U. S. started

lending money to Axis Germany. American foreign lending continued in the 1920's

climbing to \$900 million in 1924, and \$1.25 billion in 1927 and 1928. Of these

funds, more than 90% were used by the European allies to purchase U. S. goods.

The nations to which the U. S. had lent money (Britain, Italy, France, Belgium,

Russia, Yugoslavia, Estonia, Poland, and others) were in no position to pay off their debts. Their gold had flowed into the U. S. during and immediately after the war in great quantity; they could not send more gold without completely ruining their currencies. There were several causes to this awkward distribution

of wealth between U. S. and its European counterparts. Most obvious was the fact

that World War I had devastated European business. Factories, homes, and farms

had been destroyed in the war. It would take time and money to recuperate.

Equally important to causing the impropportionate distribution of wealth was US

tariff policy. The United States had traditionally placed tariffs on imports

from foreign countries in order to protect American business. However, these

tariffs reached an all-time high in the 1920's and early 1930's. Starting with

the Fordney-McCumber Act of 1922 and ending with the Hawley-Smoot Tariff of

1930, the United States increased many tariffs by 100% or more. The effect of

these tariffs was that Europeans were unable to sell their own goods in the

United States in reasonable quantities. In the 1920s, the United States was

trying “ to be the world’s banker, food producer, and manufacturer, but to

buy as little as possible from the world in return.” This attempt to have a

constantly favorable trade balance could not succeed for long. The United

States

maintained high trade barriers to protect American business. If the United

States would not buy from its European counterparts, there was no way for

the

Europeans to buy from the Americans, or even to pay interest on U. S. loans.

This

weakness in the international economy contributed to the Great Depression.

Europe was dependent upon U. S. loans to buy U. S. goods, and the U. S.

needed

Europe to buy these goods to prosper. By 1929, 10% of American gross

national

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product went into exports. When the foreign countries were no longer able to buy

U. S. goods, U. S. exports fell immediately by 30 percent. Mass speculation went

on throughout the late 1920's. In 1929 alone, a record volume of 1, 124, 800, 410

shares were traded on the New York Stock Exchange. From early 1928 to September

1929 the Dow Jones Industrial Average rose from 191 to 381. Company earnings

became of little interest; as long as stock prices continued to rise, huge

profits could be made. One such example is RCA Corporation, whose stock price

leapt from 85 to 420 during 1928, although it had not yet paid a single

dividend. Through the miracle of buying stocks on margin, investors greed

pushed them to search for even higher returns. With such tremendous profits to

be made in the stock market nobody wanted to make low interest loans.

Investors'

excitement over the proposal of profits like this drove the market to

ludicrously high levels. By mid 1929 the total of outstanding brokers' loans was

over \$7 billion; in the next three months that number would reach \$8.5 billion.

Interest rates for brokers loans were reaching the sky, going as high as 20% in March 1929. The speculative boom in the stock market was based upon confidence. In the same way, the huge market crashes of 1929 were based on fear.

Prices had been drifting downward since September 3, but generally people were

optimistic. Speculators continued to flock to the market. Then, on Monday October 21 prices started to fall quickly. Investors became fearful. Knowing that prices were falling, but not by how much, they started selling quickly.

This caused the collapse to happen faster. Prices stabilized a little on Tuesday

and Wednesday, but then on Black Thursday, October 24, everything fell apart

again. By this time most major investors had lost confidence in the market.

Once enough investors had decided the boom was over, it was over. Partial

recovery was achieved on Friday and Saturday when a group of leading bankers

stepped in to try to stop the crash. Then on Monday the 28 prices started dropping again. By the end of the day, the market had fallen 13%. The next day,

Black Tuesday an unprecedented 16.4 million shares changed hands. Stocks fell so

much, that at many times during the day no buyers were available at any price.

This speculation and the resulting stock market crashes acted as a trigger to the already unstable U. S. economy. Due to the poor distribution of wealth, the

economy of the 1920's was one very much dependent upon confidence. The market

crashes undermined this confidence. The rich stopped spending on luxury items,

and slowed investments. The middle-class and poor stopped buying things with

installment credit for fear of losing their jobs, and not being able to pay the

interest. Consequently, industrial production fell by more than 9% between the

market crashes in October and December 1929. As a result jobs were lost, and

soon people starting defaulting on their interest payment. Radios and cars

bought with installment credit had to be returned. All of the sudden warehouses

were piling up with inventory. The prosperous industries that had been connected

with the automobile and radio industries started falling apart. Without a car,

people did not need fuel or tires; without a radio, people had less need for

electricity. On the international scene, the rich had practically stopped

lending money to foreign countries. To protect the nation's businesses the U. S.

imposed higher trade barriers (Hawley-Smoot Tariff of 1930). Foreigners stopped

buying American products. More jobs were lost. More stores closed. More banks

went under. More factories closed. Unemployment grew to five million in 1930, up

to thirteen million in 1932. The Great Depression had begun.

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internet site includes an overview of the great depression pertaining to the classes in American society. There are sections on the upper class, lower class,

and middle class. Popular culture and ethnicity are also covered in detail.

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<http://www2.eh.net/lists/eh.res/forum1/feb/0012.html> This is a forum, or discussion group about the great depression. Here I will be able to discuss my

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issues of the new deal, from the constitutionality to the goal, to the actual

effect on Americans FDR and WW II are addressed too. Lots of the causes are discussed in detail, however, this book does not focus on the causes of the

great depression only, so there is not to much information and discussion about

it.