

A turning point in american history economics essay



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On October 29, 1929, the stock market crashed, triggering the worst depression in United States history, lasting about a decade. This day became known as "Black Tuesday." During the 1920s, the unequal distribution of wealth and the stock market speculation combined to create an unstable economy by the end of the decade. The unequal distribution of the wealth had several outlets. Money was distributed between industry and agriculture within the United States; in social classes, between the rich and middle class; and lastly, in world markets, between America and Europe. Due to the imbalance of the wealth, the economy became very unstable. The stock market crashed because of the excessive speculation in the 1920's, which made the stock market artificially high. The causes of the Great Depression were poor distribution of the wealth, excessive speculation, and the stock market crashes. These causes are what led the United States economy to fail, signaling a large turning point in American history. This turnaround was due to the great leadership from President Franklin D. Roosevelt.

Many understand that the Great Depression occurred for reasons such as the stock market crash of October 1929; that the slump persisted because policymakers just sat there; and that it took the New Deal to make things right. Bishop (2004) wrote that:

"As early as 1928, the Federal Reserve, worried about financial speculation and inflated stock prices, began raising interest rates. In the spring of 1929, industrial production started to slow; the recession started in the summer, well before the stock market lost half of its value between October twenty-fourth and mid-November. Coming on top of a recession that had already

begun, the stock market crash set the scene for a severe contraction but not for the decade-long slump that followed”

The downturn only worsened year after year around the globe. In 1929, most of the world was on the gold standard, which should have helped stabilize the American economy. However, according to Bishop (2004), as demand in the United States slowed, its imports fell, its balance of payments moved further into surplus and gold should have flowed into the country, expanding the money supply and boosting the economy. However the Fed, which was still worried about easy credit and speculation, dampened the impact of this adjustment mechanism, and instead the money supply got tighter.

Governments everywhere, hit by falling demand, tried to reduce imports through tariffs, causing international trade to collapse. Then American banks started to fail, and the Fed let them. As the crisis of confidence spread more banks failed, and as people rushed to turn bank deposits into cash the money supply collapsed. (Gusmorino, 1996).

Furthermore, according to Gusmorino (1996), the Great Depression was caused when “ the United States had emerged from World War I as the major creditor and financier of postwar Europe, whose national economies had been greatly weakened by the war itself, by war debts, and by the need to pay war reparations”(p. A1). Almost all nations sought to protect their domestic production by imposing tariffs, raising existing ones, and setting quotas on foreign imports. The effect of these restrictive measures was to greatly reduce the volume of international trade. However, this greatly hurt the world economies.

During the next three years, stock prices in the United States continued to fall; by late 1932, they had dropped to only about twenty percent of their value in 1929. Besides ruining many thousands of individual investors, the huge decline in the value of assets greatly strained banks and other financial institutions. Many banks were consequently forced into insolvency; by 1933, eleven thousand of the United States' twenty-five thousand banks had failed. (Goldberg, 2009). The failure of so many banks, combined with a general and nationwide loss of confidence in the economy, led to much-reduced levels of spending, demand and production. The result was drastically falling output and drastically rising unemployment. By 1932, United States manufacturing output had fallen to fifty-four percent of its 1929 level, and unemployment had risen to between twelve and fifteen million workers, or about twenty-five to thirty percent of the work force. (Goldberg, 2009).

The affects of the Great Depression were far reaching; not only for the American consumers but for the markets as well. Since many Americans were without money, they stopped buying goods; causing the sale of goods to decline in many businesses which caused many factories to close. Given that the factories closed, more and more people were unemployed, worsening the Depression. The men in many families would leave to go find employment elsewhere, and if they found a job, they would send money back to their families. For Americans living in the city, many cut back on luxury items and only bought the bare necessities. For example, many Americans started to make their own clothing and grow their own food.

Democrat Franklin D. Roosevelt was elected for president of the United States in late 1932. Many believe he was elected because of the economic <https://assignbuster.com/a-turning-point-in-american-history-economics-essay/>

problems the country was enduring. Roosevelt introduced a number of major changes for the American economy, including increased government regulation and massive public-works projects to promote a recovery. (Nelson, 2002). In 1933, he brought an air of confidence and optimism that quickly rallied the people to believe in his program, known as the New Deal. The New Deal was known to provide relief, recovery, and reform. New governmental agencies brought generous credit facilities to the industry and agriculture. During the "First Hundred Days" in office, President Roosevelt passed many programs in the New Deal that helped the economy. For example, the Glass-Steagall Banking Reform Act was passed to protect savings deposits. Furthermore, this act created The Federal Deposit Insurance Corporation (FDIC), which insured savings-bank deposits up to five thousand dollars, and imposed severe regulations on the sale of securities on the stock exchange. Additionally, the FDIC preserved and promoted public confidence in the United States financial system. Since the start of the FDIC, no depositor has lost a single cent of insured funds as a result of the bank failures during the Great Depression. (Allen, 2008).

According to Nelson (2002), during the Hundred Days, the Federal Emergency Relief Administration (FERA) was created in May 1933, to provide five hundred million dollars to the states. About half of this money was to bail out any bankrupt state and local governments. States matched the other half and distributed it directly to the people. FERA also created the Civil Works Administration (CWA), which helped generate temporary labor for those most in need. It was also during the New Deal that organized labor made greater gains than at any previous time in American history. The

National Industrial Recovery Act (NIRA) had guaranteed to labor the right of collective bargaining. 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. Congress also created the Securities and Exchange Commission (SEC) to regulate trading on Wall Street and to stop the speculation that led to the crash of the stock market. Additionally, during this time, Roosevelt took the country off the gold standard, which allowed citizens and foreign countries to exchange paper money for gold and ordered all private gold stocks to be turned over to the United States Treasury in exchange for paper dollars.

Through 1935 to 1938, President Roosevelt passed programs in the Second New Deal. As stated by Nelson (2002), the first major legislation passed in the Second New Deal was the Works Progress Administration (WPA) in 1935. The WPA hired nearly ten million Americans to construct new public buildings, roads, and bridges. Congress provided ten billion dollars for these projects. The second legislation passed was the Social Security Act, which was established on August 15, 1935. It created pensions that were funded in the form of taxes on individuals' wages and employers' payroll taxes, rather than from government funds. It also provided funds to assist children, the blind, and the unemployed. Prior, to Social Security the elderly routinely faced the prospect of poverty upon retirement. (Allen, 2008).

Bad monetary policy was supported by bad fiscal policy. Taxes were raised in 1932 to help balance the budget and restore confidence. The New Deal brought deposit insurance and boosted government spending, but it also piled taxes on business and sought to prevent excessive competition. Price controls were brought in, along with other anti-business regulations. (Bishop, 2004). However, despite this active intervention, mass unemployment and economic stagnation continued. About fifteen percent of the work force was still unemployed in 1939 at the start of World War II. After that, unemployment dropped rapidly as American factories were flooded with orders from overseas for guns and ammunitions. (Nelson, 2002).

Clearly, Roosevelt marked an essential shift in administration. Prior to the Great Depression, governments traditionally took little or no action in times of business downturn, relying instead on the market to achieve the necessary provisions. But the market alone proved unable to achieve the desired recovery in the early years of the Great Depression, and this painful discovery eventually inspired some fundamental changes in the United States' economic structure. After the Great Depression, Roosevelt's good leadership and government action came to assume a principal role in ensuring economic stability in most industrial nations with market economies in the areas of taxation, industrial regulation, public works, social insurance, social-welfare services, and deficit spending.

Today's recent economic conditions have been compared to those during the Great Depression; however, the current conditions are not as severe as those of the 1930s. The Great Depression was a time in America where jobs were scarce and economic safety was not present. Low wages, growing
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unemployment, poverty, and suffering were unforgettable experiences that occurred during the Great Depression. Nevertheless, the Great Depression caused many changes to take place in the United States. Many beneficial programs were created during the Great Depression including Social Security and the Federal Deposit Insurance Corporation which gave the government more power than any previous time in our nation's history and are still in effect today. It will be interesting to observe how the current administration handles the countries economic crisis and if brilliant leaders, like Franklin D. Roosevelt will rise up again to correct the system.