



# Large-Scale State – The USA, 1918-1968

**Immigration, economic boom & bust, the  
Depression and the New Deal**

## **An Introduction to American History**

The world's greatest superpower of the modern era is a relatively new country in historical terms. In the early 19<sup>th</sup> century tensions were appearing in the relationships between state governments and the federal government. In particular, by the 1840s, the Deep South states found themselves increasingly at loggerheads with the Federal Government over their rights to own slaves. Eventually in 1861, a number of Southern states decided to break away or to secede from the Union and to form the Southern Confederacy. Contrary to popular perceptions of the American Civil War from 1861-65, it was not fought by the North simply to free the Black slaves in the south but was more a war over preserving the Union and determining the rights of Federal versus State Government. The Civil War was a bloody and traumatic experience for the USA but ultimately the North triumphed under the guidance of President Abraham Lincoln.

From 1865 until the end of the century, a period of reconstruction was undergone. The liberated slaves found that life had scarcely improved now that technically they had their freedom. Most Southern states continued to discriminate against Blacks, whilst those who migrated to the growing industrial cities of the North found that many that lived there held them in equal contempt.

Between the Civil War and the Great War the USA 'came of age'. In less than 50 years it changed from being a rural state to an urban one. Cities flourished, as did factories, steel mills, transcontinental railroads and vast agricultural holdings were a feature. Alongside came the evils of rapid development – monopolies tended to develop; factory-working conditions were poor and cities developed so rapidly that the ever-growing population could neither be housed nor governed properly.

Industries such as iron and steel forged ahead. Andrew Carnegie, a Scot who came to the USA at the age of 12, brought advancement to the steel industry. The business he established was allied with others and because it was so large could get very favourable rates from the railroads and others; it had capital for expansion. Others copied what Carnegie did. The age of Big Business had arrived. Businessmen realised if they could combine competing businesses into one single organisation they could control both production and the market. Huge alliances of firms in the same industry or trade were established, called corporations or trusts, for example the Standard Oil Company and the United States Steel Corporation. These trusts came to dominate American industry in the late 19<sup>th</sup> century. Although trusts did much to develop the resources of the USA, they also did great harm to American life. Small firms were ruined, prices were undercut, and bribery was common; strikes were broken up. However, those who believed in private enterprise and laissez-faire opposed anti-trust laws. Further attempts were made to control the trusts with mixed results and Big Business continued to feature strongly in American life and politics. In 1913 the USA produced about 32% of the world's industrial goods, more than Britain and Germany put together.

The turn of the century heralded the USA's first hesitant steps at becoming a world power. Much of the 19<sup>th</sup> century had been spent expanding and developing internally but Americans slowly

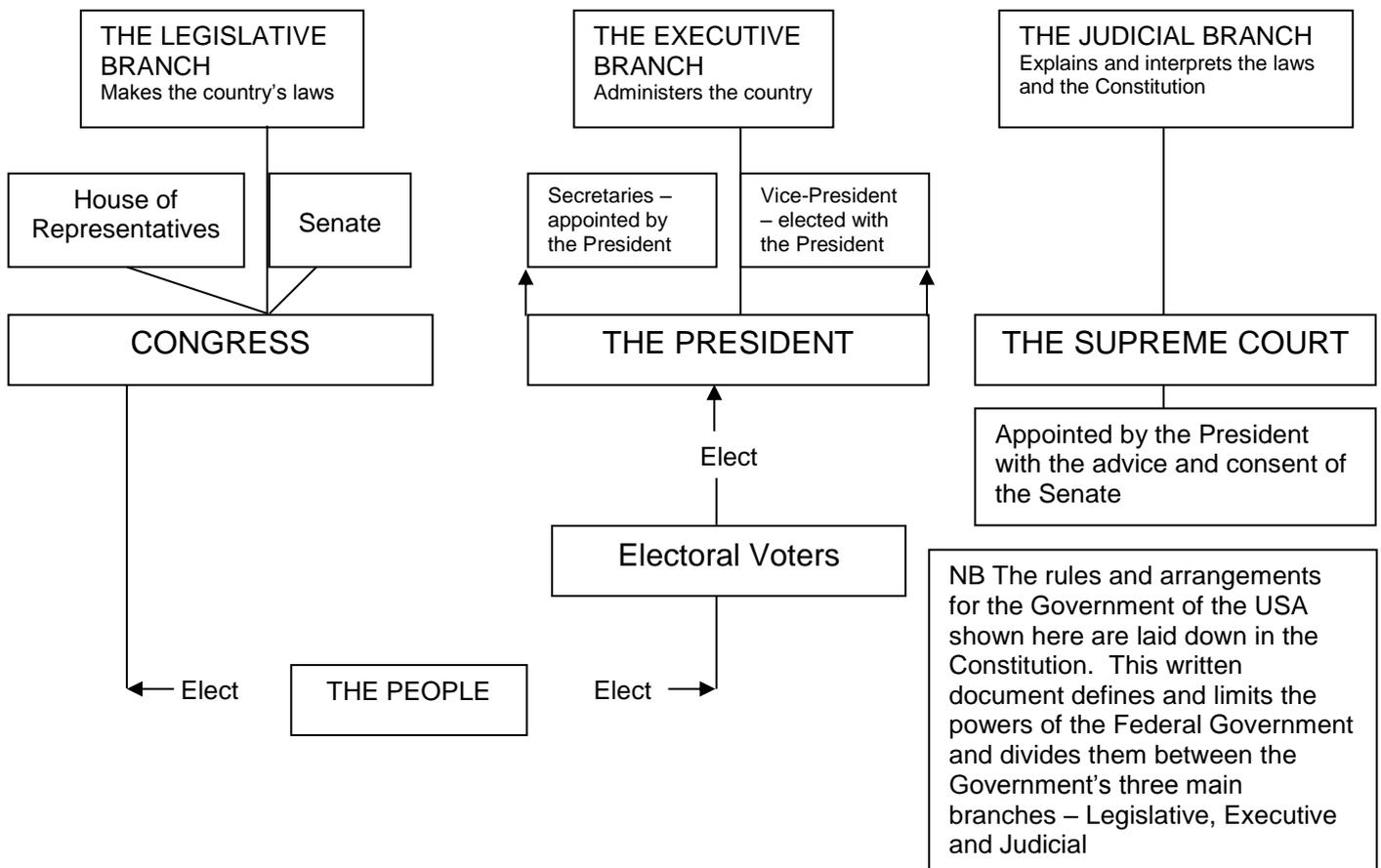
began to turn their eyes outwards towards the rest of the world. A short war with Spain in 1898 enabled her to take possession of the Philippines and Cuba whilst in 1903 a significant move was made when she negotiated with Panama the right to build the Panama Canal linking the Atlantic with the Pacific.

When war broke out in 1914, President Woodrow Wilson was elected on the promise that the USA would not intervene but the participation of the USA was almost inevitable and when it did come about in 1917, it was also decisive. The First World War cost the USA \$20,000,000,000. Government control was extended over every aspect of American life. Emerging out of that conflict and the world's strongest economic power, the USA sought to determine the future conduct of world relationships through the creation of the League of Nations. This dream was unfulfilled for the time being as the isolationists in US political life won the day and voted against joining the League. The war changed America in many ways and it hastened the coming of changes that had been on their way before 1917.

## Governing America

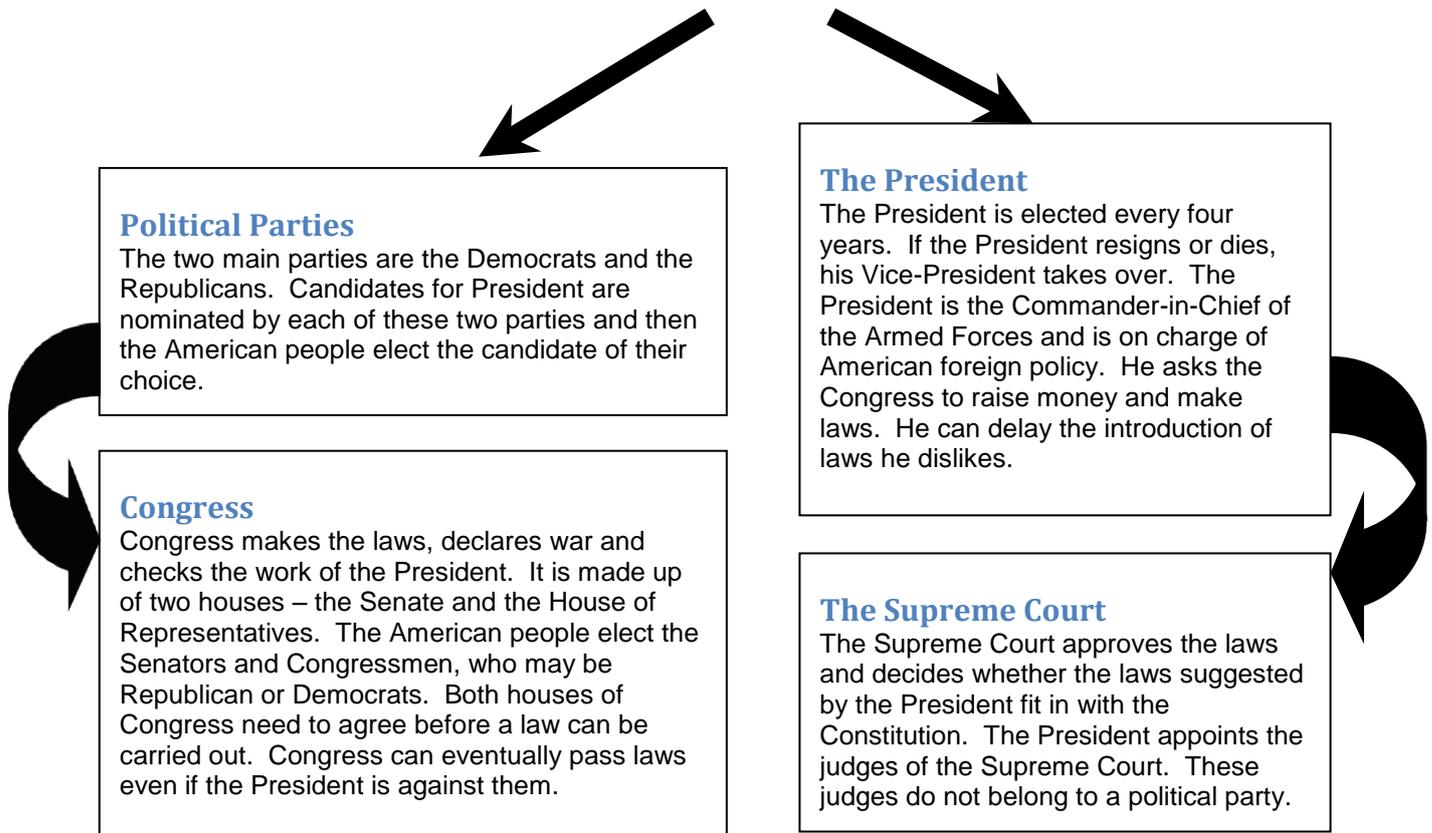
The USA has a federal system of Government. This means there is both a federal (central) Government situated in Washington DC and a series of state Governments too. The USA literally is a union of states, with each cherishing its own rights and customs. There were originally 13 states, but as the continent was settled, others were added. During the 1920s to 1930s there were 84 states.

Most states felt they had voluntarily given up aspects of their sovereignty to the federal Government in Washington, but they jealously guarded what they retained and were wary of any excessive federal Government interference. The USA is a republic (no Monarchy), with three arms of federal Government.



# THE AMERICAN PEOPLE

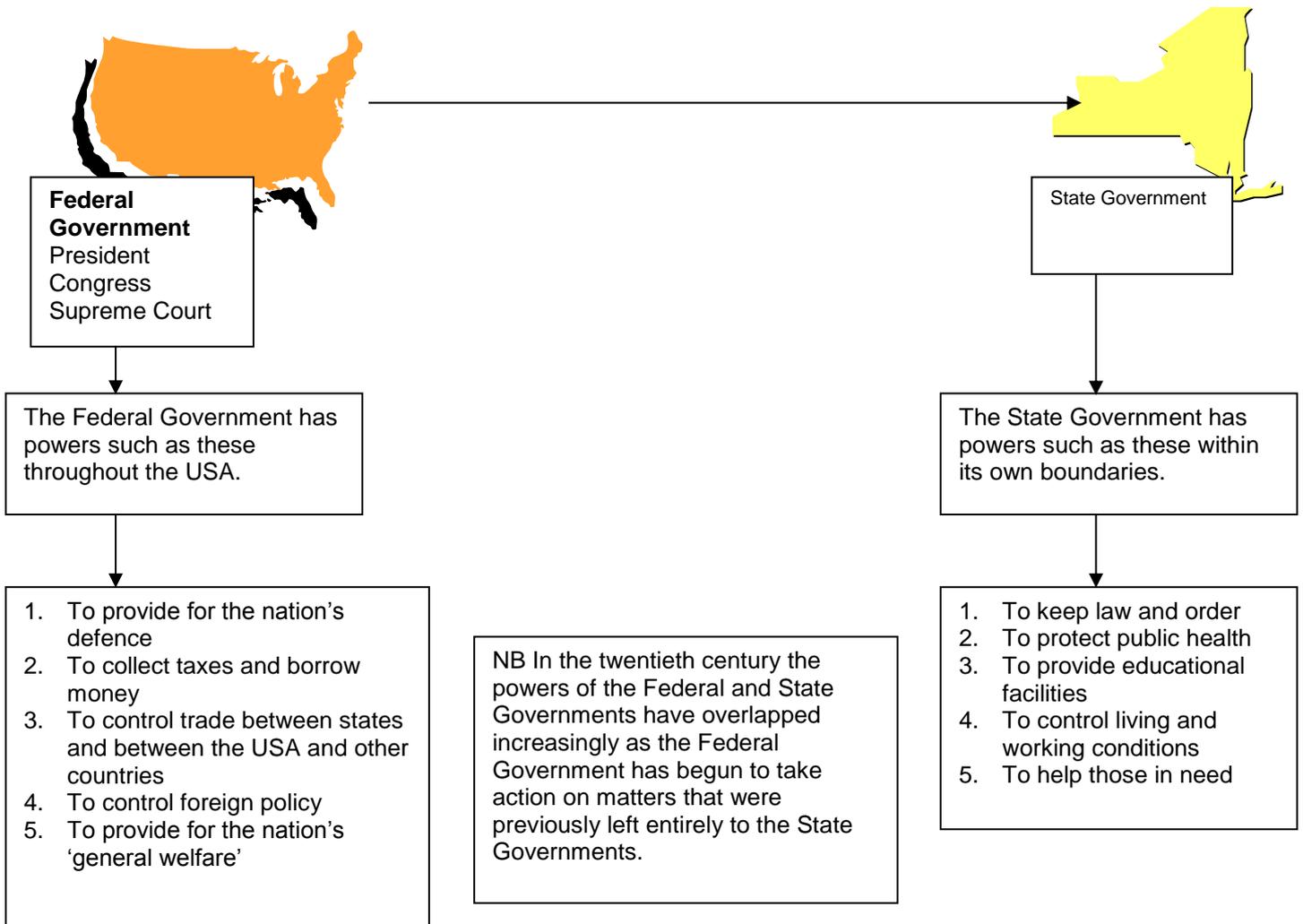
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*Source B: The USA, 1919-1941, Peter Mantin, Hodder, 1997, p2*

## The Constitution of the USA

The Constitution defines the activities of government and the rights of the people. It is a federal constitution because the original 13 colonies wished to federate or join together for certain purposes of Government e.g. defence, but to remain separate for other purposes, e.g. education. The constitution therefore divides the legislative, executive and judicial powers of Government between the Federal Government in Washington and the states. This means that the US citizen is subject to two sets of laws – **federal** and **state** law. The constitution was originally written by the 'Founding Fathers', the men who created the United States in the late 18<sup>th</sup> century. It clearly sets out the different roles of the different branches of Government in addition to defining the responsibilities of state Governments and outlining individual rights. It was designed to set up a series of 'checks and balances' so no one branch of Government could become too powerful. When the majority in either or both Houses of Congress is of a different political party to the President, he can find it very difficult to govern effectively. He may have to administer laws he disagrees with; often he cannot get Congress to pass laws he wants. The President does have the power to veto – 'say no to' – laws he disagrees with, but if both houses agree by a two-thirds majority, they can override his veto. The Supreme Court too can smother the legislative programme of the administration by declaring laws unconstitutional.



**Source C: Roosevelt and the United States, D B O'Callaghan, Longmans, 1966, p19**

**Political Parties**

The main political parties in the USA over the course of the c.20<sup>th</sup> were the Republicans and the Democrats. To simplify:

- 1920s-Republicans tended to favour wealth, businesses and a reduced Government role. The republicans carried rural areas and small towns, except in the South where they were seen as the party who freed the slaves.
- Democrats tended to have a wider base of support and adopted a more liberal line on issues. They tended to be supported by liberals, minority ethnic groups, and the less well-off and urban dwellers. During Roosevelt's period in office there was a significant realignment in political affiliation, with blacks in particular turning to his party, the Democrats.

**Capitalism in the USA**

The USA had a capitalist economic system in which private enterprise was paramount and in which there was very little Government interference. Industries grew wealthy partly because of the relative abundance and cheapness of natural resources, partly through the availability of cheap, often immigrant labour, but mainly through the overwhelming demand in a continent advancing so quickly. Huge industrial concerns grew up in the great cities; but small-scale industry thrived too.

# When Sauerkraut became 'Liberty Cabbage'

## Changing attitudes towards immigration in the 1920s

**This is what is written on the base of the Statue of Liberty**

Give me your tired, your poor, your huddled  
masses yearning to breathe free, the wretched  
refuge of your teeming shore.  
Send these the homeless, tempest tossed to me  
I lift my lamp beside the golden door

**This is what it means**

Give me your tired and poor people, the crowds of poor  
people who want a better life, the poor who live in your  
overcrowded cities.  
Send the homeless who have suffered from storms and  
war to me  
I promise them a bright new future of freedom

## A Nation of Minorities

America needed immigrants to settle the prairies, construct the railroads and operate the new industries, and in the process created a vibrant multi-cultural, multi-ethnic and powerful nation. A multi-ethnic society is where there is more than one ethnic group forming the basis of the population. In the USA, people of many races emigrated from the country of their birth to start a new life. The USA was willing to take in people who felt they had to leave their native country. The vast majority of those who journeyed to America did so in an attempt to improve their lives and the prospects for their children.

The USA has often been referred to as a 'melting pot'. It is a nation with both black and white minorities. There are few places in the world not represented within America's population. America, 'Land of the Free', the 'Land of Unlimited Opportunity', has acted like a magnet to the world's poor and oppressed as well as to its adventurers and go-getters. Apart for the Native American Indians, every other American was either an immigrant or a descendant of people who had emigrated in pursuit of the 'American dream' of freedom, opportunity and prosperity. That has given hope to countless millions over successive generations.

## Where did the immigrants come from?

During the later part of the c.19th and early c.20th, immigration rates were high. As many as 400,000 people per year emigrated to the USA, amounting to 35 million between 1850 and 1914. In these years, 1% of the annual increase of the US population was due to immigration alone. Between 1900 and 1920 more than 14 million immigrants landed in America so increasing the population to more than 106 million. Where did these people come from?

- 'Old immigration' [1820s-1880s] - mostly Protestants from Northern Europe – Britain, Germany and Scandinavia many escaping mistreatment due to their religious beliefs. By 1917 their children were first and second generations of US citizens who were proud of their roots but committed to an ideal view of America that was shaped by their own background and beliefs. They tend to be known as WASP's – White Anglo-Saxon Protestants.

- The 'New immigration' [1880-1920] - mostly made up of poor and illiterate people from eastern and southern Europe who were held in some contempt by many American WASPs. Assimilation was difficult for these new arrivals mainly from Italy, Poland and Russia.

### **Why were immigration controls introduced during the 1920s?**

The USA, after 300 years of virtually free immigration, suddenly all but shut its doors in the 1920s. The era in which America was a safe haven was gone. But, with closer scrutiny it can be seen that the immigration controls introduced in the 1920s were not the radical changes they may appear. Indeed, immigration controls were apparent before World War One. It can be said that immigration controls were not a new phenomenon in the 1920s.

It would be wrong to think that immigration controls were a sudden step taken by the US Government in the 1920s. The first calls for immigration restrictions were made in the 19<sup>th</sup> century, during which time clear signs of anti-immigrant feeling became apparent. Anti-Catholicism and anti-Semitism were common, as was the widespread fear of immigrant radicalism. The movement that called for a curb on immigration was born out of these fears. In 1884, the **Immigration Restriction League** was founded in Boston. It claimed that America was in danger of being swamped by 'lesser breeds' and campaigned for the literacy test as a way of making sure that many of the 'new' immigrants did not get into America. A series of immigration laws were passed.

In 1882, the first **Federal Immigration Act** was passed placing restrictions on convicts, lunatics and paupers entering the country. It was closely followed by the **Chinese Exclusion Act** passed in California that excluded Chinese immigrants entering the state. In 1907, the **Gentleman's Agreement** followed after an attempt to segregate Japanese and white-American schooling by the San Francisco authorities. After provoking great anger in Japan, the President was forced to see that San Francisco withdrew the segregation, on the condition that Japanese labourers were denied passports that would allow them to emigrate to the USA. The **Alien Land Law** of 1913 forbade 'aliens' from owning any agricultural land in California. It was meant to apply to all recent immigrants but was more directed at the Japanese. Eleven other states quickly followed the Californian example.

Therefore, calls for immigration controls began in the 19<sup>th</sup> century and had widespread support by 1914.

### **Conflict of loyalties during and after World War One**

World War One was a catalyst (sped up process) of the movement to limit immigration. During the war the newest public relations techniques developed by businessmen were used to 'sell' Americans the war and generate hatred towards the Germans. Soon, anyone and anything that smacked of foreign culture became suspect, and patriotism often degenerated into an ugly xenophobia. For example:

- German languages were stopped in colleges and schools
- German Americans were beaten, tarred and feathered
- Families with German sounding surnames changed them
- The German dish of sauerkraut became known as liberty cabbage.

World War One had revealed that many immigrants in the USA still had tentative sympathies for their mother country. Life for foreign-born Americans was not an easy one. If they were born –

- Germany, Austria or Italy they were immediately suspected as sympathisers of the Kaiser
- Ireland they were suspected as being dangerously anti-British and potentially anti-American saboteurs if they were Catholic
- Eastern Europe, they were suspected of being Communists or anarchists.

Once World War One had ended, many Americans began to look upon the whole conflict as a nightmare and regretted that their country had become involved in European affairs. Many felt hostile to anything foreign. The Senate refused to ratify the Treaty of Versailles, and consequently, refused to make the USA a member of the League of Nations. Isolationism had its counterpart in a determination to curb immigration, to avoid 'alien contamination' and to preserve the old American stock ethnically before it was too late.

### **The 100% Americanism Movement**

In the early 1920s, politicians called for restrictions to be placed on the numbers and types of immigrants. This desire was known as **100% Americanism** and the people who promoted it as often referred to as '**nativists**', people who were born in America as opposed to abroad.

### **Protection of racial purity**

The drive for immigration restrictions in the 1920s was based on pseudo-scientific racism commonly seen in the years prior to and during the war. Most influential of all were the widely read articles of Kenneth Roberts in the *Saturday Evening Post* where he:

- Urged that the immigration laws be revised to admit fewer Polish Jews who were "human parasites"
- Cautioned against Social Democrats since "social democracy gives off a distinctly sour, Bolshevik odour"
- Believed that immigration had to be restricted because it would inevitably produce "a hybrid race of people as worthless and futile as the good-for-nothing mongrels of Central America and South Eastern Europe"

In *The Passing of the Great Race* [1916], Madison Grant wrote that: "The man of the old stock is being crowded out of many country districts by foreigners, just as he is today being literally driven off the streets of New York City by swarms of Polish Jews. These immigrants adopt the same language of the Native American, they wear his clothes, they steal his name and they are beginning to take his women, but seldom adopt his religion or understand his ideals."

Nativist Americans believed that the immigrants were a danger to the American way of life. They spoke out against the 'alien menace'. Nativist intellectuals wrote articles and books. They preached sermons from church pulpits and university lecterns but the majority of people never heard this. More serious was the hostility generated by ordinary people who held nativists views. Such nativists believed that immigrants threatened their economic and social position. For example, many middle class Americans dreaded job competition and congested cities full of foreigners, who they distrusted.

### **'Un-American' immigrants**

The sheer numbers and diversity of people flocking into the USA created problems. M A Jones suggests that it was not so much the increased numbers of immigrants, but the changing nature of the immigrants that worried the American people. In 1914 the majority of immigrants came from Southern and Eastern Europe. They were escaping social revolutions, poverty, persecution and unemployment. The 'new' immigrants were largely illiterate and unskilled. New immigrants confronted substantial and escalating hostility. Americans were intimidated by the size and diversity of the foreign intrusion and by 1921 were welcoming the federal legislation that finally dammed the flow from abroad.

Americans had specific grounds for objecting to these newcomers:

- Majority of immigrants were Catholic or Jewish and so frightened predominantly Protestant America.
- Almost all immigrants had left non-democratic societies and tended to view the law and Government as institutions that always catered to rulers and statesmen. To Americans, the unfamiliarity of the immigrants with the ways of democracy and their general mistrust of Government loomed as a threat to the constitution of US republican Government.

- The physical appearance frightened Americans. Amongst immigrants were many malnourished and with deformities caused by vitamin deficiencies and poor diet.
- Immigrants sometimes continued to wear native clothing. Out of place on America's modern streets.
- With each boatload, Americans worried about the influence of foreign blood on the vitality of the American population.

### **Social fears**

By 1920 many otherwise humane and broad-minded Americans just did not like foreigners. Often immigrants were dirty and unskilled, knew little or no English and had no home to go to and no money with which to buy or rent one. There was no more free land available for farming but many new immigrants were not farmers, instead they congregated in the rapidly growing cities at which they had arrived, usually New York, and lived in atrocious conditions, eking out a living at some tedious and often unhealthy manual job. As they were usually poorly paid, the areas in which they lived became run down and overcrowded. They crowded together with people from their native country, continued to speak their native language and follow their traditional culture.

The population of the cities was increasing rapidly, accompanied by social problems such as poor housing and crime. Immigrants were blamed for social disorders that burdened American society, especially in the cities. Statistics in the soaring crime rates in neighbourhoods with high concentrations of immigrants were held up by journalists, reformers and politicians who favoured restricting immigration as proof of the bad influence of the immigrant on his or her environment. However, further investigation reveals a more complex interpretation. Because taverns, gambling houses and brothels were not tolerated in the refined neighbourhoods of the American citizens, they often could only exist in immigrant enclaves. In such establishments immigrants sought temporary escape from cramped housing and their grey and depressing lives.

Settlement workers (charity organisations, social workers) were more realistic in acknowledging that abominable living conditions, sickness, fear and loneliness were the real causes of crime. Most of the immigrant arrests were for crimes of poverty such as drunkenness, vagrancy or petty theft. Social workers argued that the thief who stole small amounts of food, clothing or money was desperately attempting to cope with poverty and hopelessness, rather than responding to an innate criminality. The facts suggest that the criminality of foreign born in America was no larger than that of the native population. Yet the myth of immigrant criminality persisted.

By the 1920s, some new immigrants were beginning to pound on the doors of America's top, most prestigious universities. Schools such as Columbia, Harvard, Yale and Princeton responded by trying to refuse their entry. Wealthy private educational institutions, protected by influential patrons and graduates, were impervious to the efforts of political bosses to allow the students in. Pressure groups that formed to aid immigrant access to education had to influence and change public opinion and privately persuade influential people. However, such groups were little match for the WASP establishment that opposed them.

### **Economic fears**

Most of the 'new' immigrants were unskilled and therefore looked for work in America's growing industries in the cities. The poverty-stricken immigrants were often so desperate to find work that they were prepared to work in appalling conditions for very little pay. Many were employed as strikebreakers. For these reasons, labour organisations such as trade unions resented the 'new' immigrants. They even backed the idea of a literacy test for immigrants believing that many unskilled workers would be denied entry into the USA. Indeed the idea of the literacy test for immigrant was debated 32 times in Congress prior to its introduction in 1917.

While World War One had boosted the American economy, when the war ended wartime industries reduced production. Troops returned home seeking jobs in the already saturated labour

market. The American economy seemed destined for trouble. Factories closed and people lost their jobs. In this climate of economic slump and hostility towards 'new' immigrants, the possibility of Europeans flocking to America to seek refuge and work at the end of the war was taken very seriously. There was a belief that those who could not speak English – immigrants – seemed to be taking American jobs. Industrialists, on the other hand, relished the abundance of cheap, unskilled labour for their factories and it was ignored that many of these jobs were so dangerous, dirty or low paid that 'Americans' would not do them. 'American' labour went on strike and because the immigrant population was desperate for money, they could be lured as strikebreakers into factories. The result was industrial discontent followed. The economic recession lasted until 1921.

### **Religious fears**

Catholic immigrants from Italy, Poland, Greece, Mexico and Canada had to contend with the hostility and fear of the American predominantly Protestant population. Jewish immigrants from Eastern Europe faced similar hostility.

### **Political fears**

Immigrants found themselves under attack for political reasons. They were believed to be Communists or anarchists. A wave of strikes and violence after the First World War caused great alarm in the USA. The Russian Revolution in 1917 had established the first Communist state committed to spreading revolution against capitalism. Many Americans felt an acute fear that such disturbances were caused by immigrant Communists from Eastern Europe trying to provoke a similar revolution in the USA. Local police departments and the Federal Justice Department harassed those who supported Socialist or Communist ideas. So the spectre of the Russian Revolution, coupled with the economic recession set off the 'Red Scare' period.

### **Communist fears: Palmer Raids – August 1919**

The house of America's Attorney General, Mitchell Palmer, was blown up. Palmer, an ambitious man who one day wanted to be President, believed that taking an anti-Communists and anti-anarchist stand would make him popular. He said the bombing was the work of a radical element and pledged to purge it by whatever steps were necessary. Palmer thought he would find many of these radicals in the immigrant community.

He set up the General Intelligence Division within the Department of Justice, run by his assistant J Edgar Hoover. This division spied on Communists and others considered dangerous. In January 1920, Hoover's agents and local police organised raids on Communists in 33 cities, arresting 6,000 'foreign radicals' and putting them in jail without trial. They were held in filthy conditions, were beaten up and forced to sign confessions. 600 people were deported. Most had to be released due to lack of evidence. Palmer then warned of a May Day demonstration, organised police and special troops but the riot did not happen. People lost faith in him. The hysteria passed almost as suddenly as it began. The Bolshevik threat had been exaggerated.

Most immigrants were too preoccupied with adjusting to their new environment to consider subversive political activity of any kind.

### **Anarchist fears: The case of Sacchio and Vanzetti**

On May 5<sup>th</sup> 1920, Italian immigrants, Nicola Sacchio and Bartolomeo Vanzetti, were arrested in Massachusetts and charged with murdering two men during an armed robbery. They were anarchists, spoke no English, but were found carrying guns. Their lawyer put forward the defence that they were elsewhere when the robbery took place and claimed they were being persecuted for their well-known political beliefs. There was little concrete evidence against them. The judge in the case privately called them 'those anarchist bastards' and they were found guilty and sentenced to death. Many people believed that the two men were innocent and despite serious

doubts and a massive worldwide campaign, they were executed in the electric chair in 1927. This shocked many people in the liberal minded north of the USA but many in rural America supported the executions. They were coming to believe that the cities were filled with 'foreigners' who would not adopt the American ways and were determined to overthrow the American way of life.

### Did the new immigrants have any political clout?

Immigrants had little influence in the political system until they became naturalised US citizens and gained voting rights. Even then they were not all equally enthusiastic about exercising their right once granted. The immigrant population helped increase the number of Congressmen who represented states such as New York, Massachusetts, Pennsylvania, New Jersey, Illinois and Ohio but the American-born population continued to determine the Congressional and Presidential politics of their respective states.

Immigrants who became eligible to vote did not do so en bloc. They expressed party preferences in different states. In 1920, Poles tended to back Woodrow Wilson who was advocating the creation of the new nation of Poland, whereas the Italians, East Europeans, Irish and Germans did not. Therefore the immigrant vote was too divided.

At the state and local levels, party bosses understood the political potential of the new immigrants. In cities, their machines protected immigrants from hostility and urban politicians plotted to capture the immigrant vote.

### Legal challenges

The law court was the logical place for immigrants to launch grievances against specific hostile activities of American citizens towards them but they often found the legal system ponderous, judges unsympathetic, the procedures unfamiliar and officials intimidating.

In *The Immigrant's Day in Court*, a 1923 study, Kate Holladay Clayhorn found that: "The attitude of the immigrant towards the law courts, insofar as it is determined by the teaching of lawyers and the courts, will naturally be one of distrust and disrespect. The immigrant is taught that bribery and influence are the regular methods of securing favourable decisions and that the extortionate fees he is called upon to pay are necessary to provide the expected bribes. The immigrant has no chance before the American court without the aid of a lawyer skilled in a special kind of trickery." Clayhorn advocated legal aid and education for the immigrants in their rights under the American legal system. Immigrants realised that if they hoped to settle peacefully and live prosperously in the USA they must demonstrate their willingness to be 100% patriotic.

### Summary

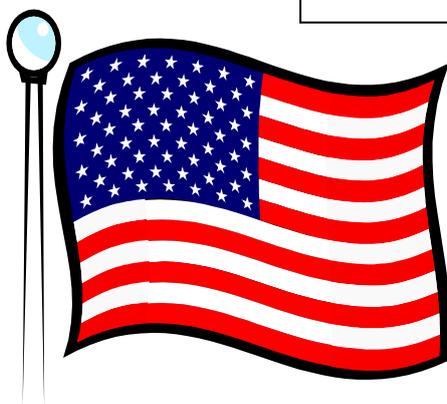
1. The Trade Unions (called Labour Unions in America) were hostile to new immigrants who worked for low wages and took jobs away from union members.

3. World War One made many Americans realise that new immigrants might be more loyal to their old country and would not be 'good' Americans.

5. Some Americans thought new immigrants would bring dangerous new ideas such as Communism that would threaten the safety of America.

2. WASPs were afraid that America's racial and religious strength would be weakened by more Catholic and Jewish immigration.

4. Many Americans thought there were enough people already. After World War One there was not enough work or housing to go round.



# The Immigration Acts 1917, 1921 and 1924

The 1917 **Immigration Act** increased the Head Tax that new immigrants had to pay, extended the list of 'undesirables' and created a 'barred zone' forbidding immigration from most of Asia. It also finally introduced a literacy test marking a major shift in American policy.

Between June 1919 and June 1921 more than 800,000 people entered the USA – 65% from Southern and Eastern Europe. The Consuls in Europe warned that millions more were preparing to leave. By February 1921, Ellis Island was so jammed that immigration authorities had to divert ships to Boston. Alarmed almost to the point of panic, Congress rushed through an emergency act to restrict immigration; it passed the House of Representatives in a few hours and was adopted by the Senate soon after by a vote of 78-1.

The **Emergency Immigration Law Act (1921)** allowed only about 350,000 immigrants to enter the USA every year. By carefully organising a quota system, the American Government could make sure that large numbers of people from 'undesirable' countries were kept out. This law imposed an annual limit on immigration from any European country, limiting it to 3% of the number of nationals from that country who were living in the USA in 1911.

Under the quota system, based on national origins, four-fifths of those allowed to enter came from Britain and Ireland, Germany, Holland, Switzerland and Scandinavia. However, few if any were permitted from Southern European countries, none at all from Asia. Most new immigrants after 1921 were, therefore, white and Protestant, which was, after all, the whole idea.

Sentiment for a more lasting form of immigration restriction soon gained strength. In 1924 Congress passed the **National Origins Act [Johnson-Reed Act]**, with little opposition. This Act:

- Drastically cut down the total of immigrants to be admitted each year
- Set an absolute limit of 150,000 immigrants per annum
- 85% of quotas favoured those from Northern and Western Europe
- Forbade all Oriental immigration – marked in Japan by a day of National mourning
- Did not apply to Mexicans as cheap labour was needed during the times of fruit harvest

The law aimed at freezing the country ethnically by sharply restricting the 'new' immigration from Southern and Eastern Europe.

Thus, it can be seen that the idea of immigration controls was not new, but had its roots in the early 19<sup>th</sup> century. By 1914, many people were in favour of some sort of restriction on immigration. This was partly because of the large numbers of immigrants arriving in the USA each year, especially between 1900 and 1914, but it probably had more to do with the changing nature of immigrants. They became associated with the city slums and everything else that was considered to be wrong with America. The organisations representing American workers resented the 'new' immigrants, as they were willing to work for little pay in poor conditions. World War One saw an increase in xenophobia (fear of foreigners) and nativism. 'Old' immigrants were afraid of losing old values. The traditional small town America was slipping away and was quickly being replaced by an industrialised nation. These changes were blamed on the 'new' immigrants. Many people thought that if they could just get rid of the 'new' immigrants, life would return to their slow paced 'Golden Age' of their fore fathers. This, and the fear of a rush of immigrants fleeing the war-torn countries of southeastern Europe were the immediate reasons for the passing of the immigration controls in the 1920s.

## **Is there another explanation for the restriction of immigration?**

Was the American attitude towards immigration restrictions a part of a larger desire to look inwards towards herself and to shun the problems of other nations? Was immigration restriction a part of isolationism?

**On 2<sup>nd</sup> April 1917 the USA declared war on Germany. At the start of the war in 1914 President Woodrow Wilson had argued that the USA should remain neutral and not become involved in Europe's 'Civil War'. At first American public opinion was firmly on the side of neutrality. Most Americans had little or no interest in world affairs and supported the policy of isolationism – keeping well out of foreign problems and concentrating on its own business. Americans, they believed, had no reason to become involved in the arguments of other nations...**

**When World War One ended, many Americans were keen to withdraw once again from world affairs and return to a policy of isolationism. They were afraid that membership of the League of Nations would involve them permanently in the affairs of Europe. Senator Henry Cabot Lodge, Leader of the Republican opposition to President Wilson [Democrat], successfully led the campaign against the League. Republicans were hostile to Wilson anyway, but they were also concerned to protect American sovereignty and the freedom to act independently. They argued that the decision to go to war should rest solely with the US Congress and not with the League. Another Republican, Senator Borah, declared he would vote against the League even if Jesus Christ returned to earth to argue in its favour, and many others were just as inflexible. Many Senators feared that if the USA got involved then it might soon get dragged into another European war.**

## **Boom Time – The Age of Excess**

### **Laissez-faire, the Republican governments and prosperity during the 1920s boom**

After a brief post-war economic recession from 1920-1921, the USA saw evidence of prosperity and good times ahead. America had become without doubt the richest country in the world and throughout the 1920s there was an almost unchecked boom. The growth in industrial production saw more jobs being created, higher profits, wages and an impressive increase in the standard of living during the years 1920-1929. The USA had sufficient raw materials as well as workers to satisfy demand for new products. The bulk of the population was better off than ever before and American society seemed to enjoy a sudden sense of freedom.

In March 1929 Herbert Hoover succeeded Coolidge as President. A few months earlier, during his election campaign, he expressed great satisfaction in the American economy and the years of Republican Government.

“We have increased in home ownership; we have expanded the investment of the average man. Today there are almost 9 automobiles for every 10 families, where 7 years ago only enough automobiles were running to average less than 4 for every 10 families. The slogan of progress is changing from the full dinner pail to the full garage. Our people have more to eat, better things to wear, and better homes. Wages have



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increased; the cost of living has decreased. The job of every man and woman has been made more secure. We have in this short period decreased the fear of poverty, the fear of unemployment, the fear of old age. In 7 years we have added 70% to the electric power at the elbow of our workers and further promoted them from carriers of burdens to directors of machines. We have steadily reduced the sweat in human labour. Our hours of labour are lessened; our hours of leisure have increased. In these 7 years the radio has brought laughter, education and political discussion to almost every fireside.”

### **Evidence of the 1920s boom**

- Unemployment fell from 11.9% in 1921 to 3.2% in 1929, never rising above 3.7% from 1922-1929
- Inflation was never higher than 1%
- GNP stood at \$72 billion in 1920 and had increased to \$104 billion by 1929
- Annual per capita income rose from \$710 to \$857
- Production of industrial goods rose by 50% between 1922 and 1929
- Steam turbine engines and hydro-electric plants meant more factories were powered by electricity
- Real wages increased by 26%
- Wages were on average 2-3 times higher than in Europe
- Hours of work reduced from 47 hours in 1920 to 44 hours per week by 1929
- Working conditions improved
- Profit-sharing, group insurance and pension plans were introduced for workers
- Employees could buy company stock at a reduced price
- Workers were allowed representatives to discuss grievances
- By 1929 1/3 of all jobs were in sales, service or finance. These areas employed many women. In 1930, over 50% of all clerical workers were women.
- Big time baseball, American football and boxing – people had free time to attend, could afford tickets and could travel to the games.
- Americans had more disposable income to spend
- By 1928, there were 17,000 cinemas. It was the ‘Golden Age of Cinema’
- Consumption of electricity doubled
- In 1912 10% of the population lived in electrically lit dwellings, 63% by 1927.
- Electrical goods and labour-saving devices such as vacuum cleaners and washing machines became affordable
- In 1929 \$852 million worth of radios were sold. There were 618 radio stations. 1930 census, 40% of American households possessed one.
- 7 million cars in 1919 and by 1929 there were 23 million cars
- Motor cars increased mobility to work and leisure
- Cars stimulated the building of roads
- Movement from the countryside to the cities and from the city centres to the suburbs
- By 1925 over \$1 billion was being spent on roads, parkways, bridges and tunnels to handle the exploding volume of motor traffic
- Living longer – in 1900 average age was 40 years but by 1930 it was 59 years
- Fruit and vegetables became a more important component in the urban diet
- 27% of 17 year olds graduated from high school in 1929, up from 16% in 1920
- Between 1922 and 1929 6 million new homes went up
- By 1930 50% of all homes had flushing toilets
- Mortgages made it possible for people, even the working class to own their home
- Skyscrapers proliferated
- J C Penny department stores increased from 312 in 1920 to 1395 by 1929
- Piggly Wiggly introduced the supermarket

## Reasons for prosperity

There are 5 main reasons why the USA saw great prosperity during the 1920s.

2. Effects of World War One
3. Favourable Government policies
4. Technical advances
5. New Business methods
6. Credit.

### 1. Effects of World War One

America entered the war on the side of the Allies in 1917 and almost immediately tipped the balance in their favour. A significant reason for US involvement was its economic link to the Allied Powers. Wall Street financial institutions had given loans to Great Britain totalling over \$2.3 billion, so Wall Street feared a British defeat.

After the armistice, which was granted on November 11 1918, it was clear that the effect of the war on Germany, France, Great Britain and Russia was devastating, both to their economies and in the loss of human life. America, on the other hand, came out of the war relatively unscathed. American soldiers returned home in May 1919 to ticker-tape parades and the promise of a prosperous decade. Great industrial expansion took place and as a result the USA overtook Germany and Britain in the rate of industrial production. The war gave US industry an enormous boost as countries bought American goods, and continued to do so when the war was over. The USA was a real economic winner of the war.

### 2. Laissez-faire, the Republican Presidents and their policies

#### a. Laissez-faire

Most Republicans believed that Governments should be involved as little as possible in the day-to-day running of the economy. If businessmen were left alone to make their own decisions higher profits, more jobs and good wages would be the result. This policy is often known as **laissez-faire**. When following this policy, the Government only interferes in the economy to help business when requested. Republican policies were based on the simple belief that if the Government did all that it could to help businessmen to prosper, then everyone would be better off.

#### b. The Republican Presidents

Throughout the 1920s the US was governed by a succession of Republican Presidents representing the views of business and the Wall Street stock market:

1. Warren Harding (1920-23)
2. Calvin Coolidge (1923-28)
3. Herbert Hoover (1928-32)

The Republican Party was strongly represented in Congress also. The main reason for the popularity of the Republicans at this time was that by the middle of the 1920s, many Americans were better off than they had ever been before. The USA was prospering and the Republicans claimed that much of it was the result of their policies.

President Harding shared the values of the business elite, and so did the colleagues who he appointed. He and Coolidge both followed policies that largely gave business what it wanted. Both men chose Cabinets mostly composed of millionaires who could be expected to sympathise with any difficulties facing businessmen. Calvin Coolidge, who became President after the sudden death of Harding, said, "The chief business of the American people is business". The policies of Coolidge's administration were to revolve around the principle that businesses should be allowed to operate as far as possible unrestricted by regulation. Coolidge believed firmly in the free market. He greatly admired businessmen

and felt private enterprise should be left alone to produce wealth and profits. The *Wall Street Journal*, a financial newspaper, approvingly declared: "Never before, here or anywhere else, has a Government been so completely fused with business." Under Coolidge, the Republicans became frankly the businessmen's party.

More than any of their predecessors, these Republican Presidents identified the fortune of America with the fortunes of business. When they spoke of business, Republicans meant privately operated business.

### c. Republican policies

The Government did intervene to support business in 5 main ways.

- i. Restoring free enterprise  
During the war the Government took direct control of many aspects of the economy in order to produce an efficient war effort. With the coming of peace the Republicans were determined to 'return to normalcy' and end this unwelcome and, as they believed, damaging interference in free enterprise. By 1920 Congress had ensured that free enterprise was fully restored.
- ii. Balancing the budget  
With the collapse of the wartime boom, unemployment rose sharply to reach a peak of over 10% in 1921. The major remedy for this was to **balance the budget**; make Government spending as low as possible and to make it equal the amount raised in revenue sales as taxes. This would encourage everyone to work harder, thus earning more money that could be kept and spent, rather than given to the taxman. The Secretary of State of the Treasury, Andrew Mellon, trimmed Government spending from \$6.4 billion to \$2.9 billion in 7 years.
- iii. High tariffs – Protectionism  
The Fordney-McCumber Act (1922) led to strict tariff barriers (additional taxes) being imposed on foreign imports so that they were now expensive and unable to compete with American-produced goods on price. This was known as 'protectionism'. With foreign goods now expensive, US consumers bought American goods instead. Over the course of the 1920s, the tariff levels increased.
- iv. Tax Reductions  
Taxes were reduced throughout the 1920s, especially for business and those who earned the highest salaries. The poor hardly benefited at all.
  - Taxes on high incomes and company profits that had been imposed during the war effort were drastically reduced
  - The Government reduced Federal Tax significantly in 1924, 1926 and 1928. This benefited the wealthy more than the poor.
  - Large-scale industrialists benefited from tax rebates, deferments (putting off payment) on loans and extended credit totalling \$3.5 billion.
- v. Fewer Regulations  
Attempts to save Government money meant that there were fewer regulation agencies and personnel to enforce the law. This meant that businesses were often left to carry on affairs as they saw fit with no one checking up on them. Laws concerning corrupt business practices, such as price fixing, were often ignored. This could have serious effects. No one in authority stopped child labour in the textile mills of the south where a 56-hour week was common and wages rarely rose to more than 18c per hour.

### **3. Technical Advances**

Great technical advances in industrial production made possible huge increases both in the quantity and variety of products on sale. This is true of almost every commodity, especially motorcars and the electrical consumer goods industries.

#### **a. Motor cars**

The Americans' love affair with the cars deepened as mass production, pioneered by Henry Ford, brought prices down and created huge numbers of well-paid jobs on the production lines. It was people in the countryside who were the first to purchase cars in massive numbers. In the south, many whites fumed when they saw a black family taking a Sunday drive. Ford produced the Model T car with the aim that anyone earning a reasonable income could afford one. Around 1914 a Ford Model T cost \$850, but by 1926 the price had fallen to just \$295, and it even had a self-starter. The costs of cars fell with the introduction of production assembly lines. And all the time Ford made huge profits.

Demand rose but with competition from General Motors and Chrysler, there were always more cars to supply to customers than there were people to buy them. New designs, new models and advertising encouraged people to keep buying.

The Federal Government built roads, a responsibility that was taken away from the state Governments with the Federal Highway Act of 1921. By 1929 10,000 miles of highway were being built per year.

The growth of the motor industry stimulated growth in others. Steel was needed for the car and truck bodies and engines, glass for windscreens, leather for seats, rubber for tyres and inner tubes and petrol for power. Motor service industries developed. Motels sprung up alongside the highways, as did garages, hotels and roadside diners, and petrol stations. The used car trade began.

#### **b. Electrical Consumer Goods**

In 1912, 2.4 million items of electrical goods were sold. By 1929 this had risen to 160 million. Radios, refrigerators, washing machines and vacuum cleaners were all developed.

However, such figures were misleading. Much of the rural USA had no electricity in the 1920s. Many items that you would expect to be in use, such as refrigerators, were not in use. It was not a 'domestic consumer revolution'.

### **4. New Business Methods**

The 1920s saw the growth of huge corporations, new management techniques and the development of advertising through mass media.

#### **a. Huge Corporations**

Huge corporations were created in the USA due to the 1,200 mergers that took place during the 1920s. By 1929 the largest 200 corporations had 20% of the nation's wealth and held 40% of the nation's business wealth. At the time, many saw businessmen as heroes who had made possible the great boom period they were enjoying. Large corporations could dominate sectors of industry by fixing prices – technically illegal but the Government tended to turn a blind eye and dictated the amount of goods produced. Government policies and actions made it possible for large corporations to act in this way. Government policies also seemed to act against the interests of small businessmen.

#### **b. Management**

Business management became increasingly complex. Specialities developed such as accounting, design, marketing and administration. Business schools flourished: there were 89 by 1928. Company management became a respectable career. Career ladders developed and people competed to get the top jobs.

### c. Advertising and Sales

To fuel the boom, people had to constantly buy new things. They had to be convinced that they could not do without the latest model of an electrical appliance or the new design in clothing. To achieve this, advertising and sales techniques developed. Using cinema and radio a revolution took place where advertisers exploited the desire of ordinary people to live the life of a film star. A successful advertising campaign might possibly be the only difference between a huge profit and a huge loss.

## 5. Credit

The consumer boom was financed largely by the development of credit. By 1929, \$7 billion of goods were sold on credit. This included 75% of all cars and half of all major household appliances. Credit enabled consumers to buy goods they otherwise could not have been able to afford. Even in working class households oil furnaces, radios, toasters, irons and washing machines commonly could be found. This was stimulated by a rapid expansion of consumer credit. 75% of all radios, 60% of all cars and 60% of all furniture was bought on credit. It was estimated that men earning \$35 a week were paying out the same amount per month for their family car. Companies sometimes used credit facilities to finance operations. It seemed that almost everyone was in debt but there was little concern. It was assumed that everyone's credit was good. Banks and loan companies seemed to lend money with few questions asked. There were, however, potential problems. People could become over-stretched or what would happen if they lost their job?

A British historian looks at the USA's economy – Paul Kennedy, *The Rise and Fall of the Great Powers*, 1988

“The USA seemed to have all the economic advantages which some of the other powers possessed in part, but none of their disadvantages. It was huge, but the vast distances were shortened by some 400,000 kilometres of railway in 1914. The sheer size of the area under cultivation, the efficiency of its farm machinery, the decreasing costs of transport because of railways and steamships made American wheat, corn, pork, beef and other products cheaper than any in Europe. American firms were equal to or better than any in the world; and they enjoyed an enormous domestic market, which their European rival did not. In industry and agriculture and communications there was both efficiency and size.”

### **Summary**

The 1920s were a period of:

- Full employment
- Low inflation
- High tariffs
- Benevolent Government policies
- Consumer boom
- Belief that prosperity would go on forever
- Optimism

## Problems in the Economy

Although the American economy was booming, not everybody shared in the growing affluence. Six million families – 42% of the total – had an income of less than \$1,000 a year and certainly could not afford the new cars and gadgets rolling off the production lines. Presidents Coolidge and Hoover advocated a policy of ‘rugged individualism’ that meant ‘every man for himself’, with no welfare support from the Government for the poor. The growth of mass production, mass consumption and mass culture, as impressive as they were, excluded a very large segment of the population. Economic growth, rather than diminishing the gap between the rich and poor, increased it.

Prosperity was concentrated at the top. From 1922 to 1929:

- Real wages in manufacturing went up per capita 1.4 %
- Wages rose on average by 40% but in 1929 36,000 of the wealthiest families received as much income as the 12 million poorest
- Some workers experienced falling wages and massive unemployment.

Every year in the 1920s, about 25,000 workers were killed on the job and 100,000 permanently disabled. Two million people in New York City lived in tenements condemned as firetraps.

There are six identified problems that existed within the economy in the 1920s that would affect the stability of the boom.

1. Uneven distribution of income
2. Agriculture
3. ‘Get rich quick’ schemes
4. Banking system
5. Cycle if international debt
6. Slow down.

### 1. Uneven distribution of income

Prosperity in the 1920s was very uneven. The rich got richer, average workers’ incomes rose slowly. Some workers experienced falling wages and massive unemployment. Many farmers suffered through most of the decade. Blacks fared worse than Whites. The unequal distribution of wealth, though generally ignored by political and business leaders, was a central feature of the 1920s.

#### Regionalisation

The traditional industrial areas of the USA were the northeast and the mid-west – Illinois, Michigan and Pennsylvania. These areas also attracted the new motor and electrical goods industries because:

- There was coal
- Good, well-established transport networks
- Mobile, often immigrant labour force
- Close to large centres of population

As a result, other regions in the USA, notably the west and south had only sparse industrial development with comparatively small towns. In such areas, the major employer was agriculture. However, even in the industrial heartland, the situation was not always rosy. The traditional industries faced increasing competition from those that were developing. Coal suffered at the hands of the oil industry, the cotton industry was hit by the demand for cheaper synthetic fibres. The passenger railway services were hit by the growth of the motorcar.

So some groups lay outside the general prosperity. They were areas of more or less permanent slump:

- Textile towns of New England and Southern Piedmont
- Coal mining regions of Kentucky and Illinois
- Agriculture. Most farmers were debt-ridden and depressed although there was some recovery in dairy, fruit and vegetable farming.

### **Differences in income**

Income was distributed very unevenly throughout the country. People living in the northeast and far west enjoyed the highest per capita incomes:

#### **Per capita incomes in 1929**

|                |                          |
|----------------|--------------------------|
| Northeast      | \$921                    |
| West           | \$881                    |
| Southeast      | \$365                    |
| South Carolina | \$412 (non-agricultural) |
|                | \$129 (agricultural)     |

The gaps were widening.

Even in the industrial areas, many people were between jobs a lot. Sometimes people were unemployed for a month before finding another job. This was at a time when there were very little welfare or unemployment benefits and more relief was supplied by charitable organisations.

### **Women**

Women did not, on the whole, enjoy improved career opportunities. They were still expected to be married homemakers. In 1930 there were only 150 female dentists and 100 female accountants in the whole USA. The number of women receiving a college education actually dropped by 5%. Women tended to be employed in low-paid menial jobs. Where a woman did the same work as a man, the woman would receive less money.

### **Ethnic minorities**

Ethnic minorities were at the bottom of the pile where the distribution of income was concerned. Native Americans eked out a miserable existence on infertile reservations. The Black population – 10% of total US population tended to live in the south – itself the poorest region of the USA. Considerable migration north, particularly to large cities took place. There they faced discrimination when trying to find employment and housing.

## **2. Agriculture**

During the war agriculture had prospered as demand from Europe forced food prices and farmers' profits up but as European agriculture recovered after 1918 American farmers started to suffer. Production was always greater than demand, not just in America, but also in the whole world, so surpluses could not easily be exported. Too much food meant that prices fell sharply. The fact that wartime prices were so high made their collapse after 1918 all the more shocking.

Farmers would not willingly cut production. They couldn't trust that their neighbours would do the same. The farmers wanted the Government to guarantee prices. They would not do it. To survive, many farmers planted more crops instead of less, only worsening the problem of overproduction and falling prices.

Farmers generally had heavy debt payments – for land, for equipment and supplies. More and more farmers were forced to sell up as they saw their mortgages foreclose and the loss of their land. There were 1,000,000 less farms in 1930 than there had been in 1920. Some farms operated at a 66% loss. Those who remained were still unable to enjoy what were becoming 'essential' facilities: in the mid 1920s a mere 7% of farms had gas or electric light, and just 10% had piped water. Farmers became bitter.

Farmers wanted the Government to compensate them for their losses. However, the only real solution to the problem was a system of co-operation between farmers and the Government to end surpluses and bring production down to equal demand. This was bitterly opposed by most farmers who hated the thought of Government interference. Instead they sought higher tariffs, but

these would have done nothing to help. The situation was complicated by the fact that American eating habits were changing. Consumption of barley for beer fell by 90% due to prohibition, and demand for wheat fell by 25% in the years 1900-1925, as an increasingly prosperous population preferred more luxurious foods. Yet, a new pattern was emerging in American agriculture. Large well-financed farms were accounting for more and more of the country's agricultural output. This was known as agri-business. These farms did relatively well.

The census of 1920 showed that the majority of the US population lived in the towns and cities. Cheap food is good for the urban consumer in the short term, but in the long run industry suffered, because rural poverty meant that those in the countryside could not afford to buy the goods produced on such an enormous scale in the towns. At the bottom of the agricultural economy were farm labourers, particularly migrant workers. 75% were Mexican. Most of these labourers moved from region to region as different crops ripened. There was little opportunity for a social life or schooling.

### **3. Get rich quick schemes**

To get rich quick was the aim of many Americans in the 1920s. They invested in hugely speculative ventures and inevitably many lost money. This was a golden opportunity for confidence tricksters and crooks. Victims of such scams were often criticised for their greed. Large-scale speculations took place:

#### ***Florida land Boom***

Before the 1920s Florida was a relatively undeveloped state with a small population. But a wealthy industrialist built hotels and with all-year sun and the advent of the car, Florida became accessible to the middle class for vacations and retirement. Large-scale coastal developments followed. Salesmen sold land from pictures in glossy brochures. People invested in such unseen developments to make a quick profit. Sometimes they paid on credit. It was said that someone who bought a parcel of land for \$25 in 1900 and sold it for \$150,000 25 years later. Such a boom was only sustained if there were more buyers than sellers. Demand was tailing off by 1926. The hurricanes of 1926 had killed 400 people and left 50,000 homeless. There were scandals of bad locations. The land boom collapsed.

#### ***Stock Exchange speculation***

Many Americans dreamed of becoming rich by making a big profit on the Wall Street stock market. Buying shares in a company would do this. If the company made money you would get a share in the profits. These shares – or stocks – would then be worth more, so you could sell them at a higher price on the stock market. Many people borrowed money to buy shares in the hope that share prices would carry on going up.

- **Buy stock to the value of £100.**
- **Pay a deposit of \$20. Outstanding account is \$80.**
- **Intention of the customer is to sell the shares before the outstanding account has to be paid. The customer will sell when the value of shares has reached \$160, settle account and have made \$60 profit.**
- **However, if the value of the stocks collapses before the customer had a chance to sell this will have a dramatic effect.**
- **Stock that was worth \$100 falls in value to \$50 but still owes \$80.**
- **Customer sells shares to settle outstanding account. Pays the \$50 to the broker but has to find another \$30 from another source.**

#### 4. Banking system

The banking system allowed the banks to regulate themselves without the Government interfering. The bankers would act in their own interests and in the interests of their institutions rather than in the interests of the nation as a whole.

There were 30,000 banks in the 1920s. Most were very small and therefore unable to withstand major setbacks. If they collapsed their depositors would lose virtually all their savings.

#### 5. Cycle of international debt

This was probably at the heart of the economic problem. The Americans wanted the European nations to repay the loans that they had taken out through the war but some countries had problems making the payments.

#### 6. Slow down

Was the boom slowing down? It was dependent upon continuing domestic consumption because high tariffs and the generally depressed conditions in Europe meant that American producers could sell comparatively little abroad.

There were three indicators that point to a slow down:

- Problems in small business: small business often faced hard times. During the 1920s, for every 4 businesses that succeeded, 3 failed. The Government was no more prepared to help out failing industrial concerns than it was to help families in difficulty.
- Slow down in the construction industry: economic historians agree that the state of construction is generally a good indicator of the overall health of the economy. The mid-1920s saw a great boom in construction but house, office and highway building tailed off after 1926. Higher unemployment in construction-related businesses was inevitable and had knock-on effects.
- Falling domestic demand: it is generally agreed that the domestic market became flooded with goods that could not be sold. More and more people already had bought their major goods such as cars, and refrigerators and did not need to buy new ones. Others were in no position to spend money on non-essential items.

Although the American economy was booming, not everyone shared in the affluence. Six million families, 42% of the total, had an income of less than \$1,000 a year and certainly could not afford the new cars and gadgets rolling off the production lines. Presidents Coolidge and Hoover advocated 'rugged individualism' that basically meant 'every man for himself', with no welfare support from the Government for the poor.

**...Prosperity was concentrated at the top. While from 1922 to 1929 real wages in manufacturing went up per capita 1.4% a year, the holders of common stocks gained 16.4% per year...One-tenth of 1% of the families at the top received as much as 42% of the families at the bottom. Every year in the 1920s, about 25,000 workers were killed on the job and 100,000 permanently disabled. Two million people in New York City lived in tenements condemned as firetraps.**

**Howard Zinn, A People's History of the United States, 1980**

# The Day Wall Street Crashed

## The Wall Street Crash and its impact

America went on a spending spree in the Roaring Twenties. Throughout the 1920s Americans had been on a reckless spending binge, both on goods and on shares. The speculation in shares was financed largely by loans (credit) from brokers, everyone being confident that ever-rising values would secure their investments.

October 24 1929 – the day's business on the New York Stock Exchange on Wall Street, the largest money market in the world, began as much as usual. But brokers were nervous. The past few weeks had seen violent swings – both in prices and between optimism and fear. On this, Black Thursday, the stock market fell. The party was over. Prices fell so dramatically that thousands of shareholders – whose 'fortunes' existed only on paper – were forced to sell their investments. This in turn fuelled a further downward spiral in prices.

### **Panic! 24 October**

On 'Black Thursday', panic-stricken investors undertook massive selling on the Stock Exchange forcing prices down. By 11.00 a.m. on 24 October – an hour after opening time – panic had seized the market. The value of US Steel stocks fell from \$205.5 per share to \$193.5, General Electric fell from \$315 to \$283. Investors instructed their brokers to sell – at any price, and sometimes for virtually nothing.

No one really understood what was happening. Brokers found it very difficult to keep up with current prices. They were buying stocks for clients at an agreed price only to find out they weren't worth that much. Scenes at the Stock Exchange were becoming so wild that the police had to be called in. Crowds gathered outside to witness the goings-on.

The *New York Times* vividly reported: "Fear struck...thousands of brokers threw their holdings into the whirling stock exchange pit for what they could bring. On the stock exchange floor there was a mad scramble to sell. Brokers turned white with shock, some ran about shouting wildly as fear and uncertainty grew. Because of the undignified chaos, officials closed the visitors' gallery."

By around noon the worst of the panic appeared to be over, and a rescue operation was under way. Later that day, six eminent bankers and financiers agreed to buy \$20 to 30 million to buy blocks of shares. In a statement to the Press they said that there had been 'a little distress selling', but had decided to redress the imbalance and so prop up the market.

Richard Whitney, the debonair and self-confident Vice-President of the Stock Exchange, appeared on the floor. Thrusting through the crowds milling around the glass-domed ticker-tape machines, he made for the trading post where US Steel was being sold. He ordered 10,000 shares at a price above that was being asked. He then visited some 20 other posts, again buying large quantities of shares. Within a few minutes he had spent about \$20 million of banker's money.

### **Buying shares**

Many Americans dreamed of becoming rich by making a big profit on the Wall Street stock market. Buying shares in a company would do this. If the company made money you would get a share in the profits. These shares – or stocks – would then be worth more, so you could sell them at a higher price on the stock market. Many people borrowed money to buy shares in the hope that share prices would carry on going up.

The market rallied but the effect was short lived.

Brokers, knee-deep in sell orders, desperately tried to work out how much their customers were losing, minute-by-minute. Business closed at the usual time of 3.00 p.m., but hours later, lights were still blazing from office windows as clerks struggled to deal with the transactions. Restaurants around Wall Street stayed open throughout the night, and hotels were booked to overflowing.

At the final tally, 12,894,650 shares were sold that day at ever-falling prices. This compared with a daily average of 4 million the previous month.

On Friday 25 October 1929 a newspaper reported that “Secure in the knowledge that the most powerful banks in the country stood ready to prevent a reoccurrence, the financial community relaxed its anxiety yesterday.” Most weekend newspapers were confident that the stock market was healthy and the days ahead would see a rush to buy, taking advantage of the new lower prices.

On Sunday the newspapers declared that the worst of the slump was over, and that business would pick up in the week ahead.

On Monday, however, shares began to fall again. The bankers this time did not come to the rescue. They said it was not their responsibility to protect stock market prices. By Tuesday – ‘Terrifying Tuesday’ – it was clear that the worst was still to come. Chaos ensued as mad selling took place. Nearly 16.5 million shares were traded. No one was buying. \$14,000 million in paper profits were wiped out in a single day. At one stage an Exchange messenger-boy offered \$1 for a block of stock that six days earlier had been worth \$100,000 – and got it. The stock exchange closed and remained shut until Thursday afternoon. Prices continued to fall.

In spite of the prevailing gloom, there were still some who voiced confidence. They included John D Rockefeller, the oil multi-millionaire, who boldly announced that he and his family were buying ‘sound common stocks’. On learning of this, the entertainer Eddie Cantor – who declared that he had ‘lost everything’ in the crash - quipped: “He can afford to. Who else had any money left!”

### **What caused the crash? Loss of confidence in the stock market**

The stock market contained the seeds of its own collapse. America had gone ‘Wall Street Crazy’. Brokers, bankers and financiers were very confident in the strength of the economy. People were encouraged to invest and ordinary citizens were caught up in the fever. Many overextended themselves thinking they could not lose. With prices rising constantly throughout 1929, few paused to consider what might happen if prices fell. People chose to ignore the fact that prices could collapse as well as soar.

The desire for quick profits affected those who were rich and those who wanted to be. To meet the demand for the latest financial news, hotels installed ticker-tape machines that relayed share prices in their lobbies and the liner *Ile De France* sailed from New York for Europe fully equipped with a ticker tape and brokerage office. The stock market stood at an all-time high. But on September 5 the economist Roger W Babson warned people: “Sooner or later a crash is coming.” Following on his words, confidence began to crumble.

The stock market structure was maintained by the confidence that people had in it. That confidence collapsed in October 1929. Rumours spread that big players such as Joseph Kennedy were selling stocks – this led others to sell. Banks called in loans; people had to sell stock to pay. Brokers told their clients to sell. Only when the stock is being sold does the problem arise. The

problem in 1929 was that so much stock had to be sold to pay brokers bills, credit debts and/or mortgages.

The crash of October 1929 signified an end to confidence in the stock market. National confidence fell; there began a period of depression and unemployment without precedent in modern times.

### **How did the Presidents deal with the crisis?**

Two US Presidents – Coolidge and Hoover – played key roles in the economic collapse and the ensuing Great Depression that lasted throughout the 1930s. A third President, Franklin D Roosevelt was elected to lift America out of its economic rut.



- Coolidge, who had been President for 6 years, failed to curb the speculative boom in the stock market, and to restrict easy credit, that led to the Wall Street Crash seven months after he left office.
- Herbert Hoover, who had promised the American people 'a chicken in every pot, a car in every garage' when he took office in March 1929. Prior to this, he was the Secretary of State for Commerce under Coolidge and described as the 'architect of prosperity' in the 1920s. In 1933 Hoover's failure to alleviate the severe hardships led to his defeat for the Presidency by Roosevelt.



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### **What happened next?**

Individuals and businesses lost billions. Thousands who had been well off lost their life savings or were in financial ruin or bankrupted. Those who remained solvent were often hard hit. They rushed to the banks to draw out their savings. Thousands of banks had to close. Credit collapsed. Loans were called in (had to be paid). New loans were refused. Stock, although greatly reduced in value, was taken as payment. No one, it seemed, was prepared to take financial risks. People could no longer afford to buy consumer goods or invest further. After the stock market losses, companies cut back on production, or collapsed altogether. Millions lost their jobs, while wages and prices dipped, as did public spending. The culture of American society changed.

The slide continued, setting off global chain reactions. European nations heavily dependent on American credit fell too. World trade suffered, and the protective tariffs (trading taxes) worsened the situation.

The Great Boom had suddenly turned into the Great Depression that rapidly affected not only the USA but also foreign countries all over the world. However, the Wall Street Crash did not cause the Depression; it was just a symptom of a problem whose real causes lay much deeper. Many historians believe that the Great Depression was already on its way due to the problems of the 1920s. Moreover, stock markets had crashed before and have done so without any ensuing economic depression.

Even after the crash, prices still stood higher than they had done at any time during the previous year. What had happened during the October crash was the gains that had occurred from January to October 1929 had been wiped.

At the time, economic experts failed to see the severe damage caused. They believed that this was a temporary situation. It was not until 1932, when it was clear that the Great Depression was going to continue for a long time, that prices really plunged. Recovery was not, as President Hoover insisted, just around the corner.

# 'In Hoover we trusted, and now we are busted'

## Introduction

The Depression is the name given to the period in the 1930s in which the United States' economy collapsed. It began in the autumn of 1929 and was infinitely more severe than previous slumps. It affected more people and lasted longer. For 3 years the economy spiralled remorselessly downwards.

Misery and want stalked the entire country. Recovery was slow. The American collapse was psychologically damaging because it was in such contrast to what had gone before. During the 1920s Americans had enjoyed the highest standard of living ever attained anywhere. Then, almost overnight, the world's richest country was plunged into destitution.

## Herbert Hoover

"We in America today are nearer to the final triumph over poverty than ever before in the history of any land. We shall soon be in sight of the day when poverty will be banished from this nation."

Herbert Hoover, accepting the Republican Party Presidential candidacy in 1928

Hoover was well qualified for the task of President. He was sworn in as President in March 1929 and Americans had high expectations of his administration. He told the American people that the nation's prosperity was permanent and they had little reason to doubt him. Indeed, at the end of the 1920s, big business had seemingly solved many of America's social problems. Living standards had risen. But as people bought less, more goods were stored in warehouses and businesses began reducing production and laying off workers. Hoover knew the economy was in trouble.

## What caused the Great Depression?

Economists disagree but it is generally accepted that the prosperity of the 1920s had been built on shaky foundations. The most serious underlying weaknesses of the economy were:

- People bought fewer goods
- Overproduction of goods
- Income was badly distributed. By 1929 5% of the population received 1/3 of the income. 71% of the population received incomes of less than \$2,500 a year – the minimum generally thought necessary for decent comfort.
- Profits and dividends had risen much faster than wages
- Republican tax policies favoured the wealthy
- Business confidence evaporated after the Wall Street Crash
- Bankruptcies and bank failures multiplied
- Families lost their savings and their homes
- Wheels of industry slowed down
- Farm prices fell and went on falling.

## Living during the Great Depression

### a. Unemployment

As businesses found it difficult to sell their goods, unemployment followed. There were no national records until the mid 1930s but official Government sources suggest that unemployment

rose from 3.2% of the labour forces in 1929 – 1,200,000 people to 25.2% by 1933 which equals 12,830,000 people. The Labour Research Association claimed the real figure was nearer 17 million people.

In heavily industrialised cities the Depression was 'so awesome as to become in the end meaningless'. Blue collar and/or non-white workers felt it hardest of all. By 1932, there were 660,000 out of work in Chicago; 1 million in New York City, 50% in Cleveland and 80% of the population of Toledo was unemployed. In the 3 years after the crash, 100,000 people lost their jobs on average every week.

All parts of the country and all occupations were affected but some to a lesser extent than others.

- Government employees were less likely to lose their jobs than those in the private sector
- Unemployment in the south was not as bad as in the industrial north
- Large manufacturing businesses tried to keep on as many experienced workers as possible. They reduced the numbers of hours and days that men worked and their wage rates so they could keep more on the payroll. One subway worker in New York saw his wages fall from over \$2,000 in 1930 to under \$1,200 in 1932.

People generally blamed themselves for their troubles. For this reason alone, the psychological effects of mass unemployment were devastating. There are many cases of people pretending to still be in work, to go out early each morning with a briefcase and packed lunch to keep up appearances. Men who lost their jobs often felt that their status within their families and communities had diminished.

The unemployment rate amongst women tended to be lower but women were routinely paid less than men for doing the same work. When fathers lost their jobs, wives and daughters within families had no option but to take any job to prevent hunger. Women in menial jobs were likely to be laid off before men, domestic service suffered because families could no longer afford to keep people on. Discrimination against working women rose. They were viewed as taking jobs away from unemployed men.

In 1929, poor relief was provided largely by local Government and private charities. Only 8 states had any form of unemployment compensation. Charity payments were pitifully small – often as little as \$2 to \$3 a week for a family. In Chicago, local relief organisations gave the most desperate only \$2.40 a week for an adult and \$1.50 for a child. A dozen eggs cost 28c, a loaf of bread 26c, and a pound of bacon 22c. Payments were almost non-existent in the south. Even after unemployment became widespread, many relief agencies treated the poor as if their plight was their own fault. Before receiving aid, relief applicants were often required to submit to humiliating interviews. In many places relief was in the form of food orders to purchase groceries. These were deeply resented by people. Frequently little or no money was provided to help with rent, clothing or medical care.

#### **b. The life of the poor**

Thousands of working class families have been thrown out of their homes because they can no longer pay the rent. In the streets of every large city workers are dropping, dying and dead from starvation and exposure. Every newspaper reports suicides of these workers, driven to desperation by unemployment and starvation.

Source: Part of the evidence given to a committee of Congress in 1931 by William Foster, leader of the American Communist Party

Those without work therefore faced great hardship. Those lucky enough to keep their jobs suffered crippling wage cuts. Because they had no money to buy goods, they could not help the economy to revive.

Most workers were completely dependent upon their wages. The strain on family life was intense. Almost everyone felt insecure. The employed feared unemployment, those without work worried about what would become of them. If people could not keep up their mortgage payments or find the money for the rent, they lost their homes. Many women found it hard to keep on going with their husbands moping around at home.

People went hungry in one of the richest food producing countries in the world. Farm prices were so low that food could not be profitably harvested. In Montana wheat was left to rot in the fields. Meat prices were not sufficient to warrant transporting animals to market. In Oregon sheep were slaughtered and left to buzzards. But in cities breadlines formed everywhere. The poor scavenged for food in dustbins. In Chicago, women scoured rubbish tips for anything edible. Soup kitchens were opened to feed the starving. Even Al Capone, the notorious Chicago gangster opened one for the needy of Chicago. In remote areas the problem of feeding the family was just as great, but there were no soup kitchens. A survey found that half of all school children were insufficiently fed. With inadequate diets came disease. Incidents of dysentery, TB and typhoid increased.

Can not you find a quicker way of executing us than to starve us to death?

A New Jersey citizen to Hoover in the autumn of 1930

Jobless men roamed the countryside looking for work or congregated on the outskirts of big cities in cardboard shacks known as 'Hooverilles'. These shantytowns were nicknamed 'Hooverilles' because many people blamed their homelessness on President Hoover. Hooverilles were often built on rubbish dumps.

So many resorted to selling bruised apples that had fallen from trees on street corners that the Bureau of Census classified apple sellers as employed. Hoover explained this by stating, "Many persons left their jobs for the more profitable one of selling apples." However, such men were living on their wits and were dependent on soup kitchens, after having to sell their family homes and possessions or leave their rented accommodation and concentrate on finding food to eat. In Philadelphia one official reported that hundreds of families were 'reduced for actual subsistence to something of the status of a stray cat prowling for food'.

Source: From the *American Earthquake, A Documentary of the 20s and 30s* by Edmund Wilson (1958)

Another widow, who used to do housework and laundry but who was finally left without any work, fed herself and her 14-year-old son on garbage. Before she picked up the meat, she would always take off her glasses so that she would not be able to see the maggots; but it sometimes made the boy sick to look at this offal and smell it he could not bring himself to eat.

Many unemployed people became 'hoboes' – homeless wanderers seeking any kind of work. By 1932 it was estimated that there were 1 to 2 million desperate unemployed people taking to wandering around the country, hitching rides or hopping onto freight trains or living in shanty towns on the outskirts of towns and cities. Hoboes were given a hard time. Southern Pacific Railroad said it threw 683,000 hoboes off their trains. The state of California posted guards to turn hoboes away from its borders. In Atlanta, Georgia, hoboes were forced to work in chain gangs.

Suicide rates soared from 14 per 10,000 in 1929 to 17.4 in 1932. Apparently, so many people jumped off the Hanrattan Bridge in Memphis that the local press carried a list of clergymen prepared to counsel would-be suicides – until one of the clergymen threw himself off the bridge.

With no hope of employment, young people postponed marriage, or if they did marry did not have children. The number of marriages fell from 1.23 million in 1929 to 982,000 in 1932. There was a fall in the birth rate also.

### **The Bonus Army**

In 1932, 20,000 unemployed men who had served in the armed services in the First World War converged on Washington to demand assistance. For over a month many of them camped on the centre of the city not far from the White House. Some of the unemployed hoped to meet the President, but instead as tensions rose a policeman shot two men dead. Fearful of further trouble, Hoover ordered 700 soldiers to clear the unarmed ex-servicemen out and destroy their camp. Millions of Americans were shocked by the violence that was used, and particularly the death of an 11-week-old boy fatally injured by tear gas.

She walked into the local store, asked for a 24-pound sack of flour, gave it to her little boy to take it outside, then filled a sack of sugar and said to the store-keeper, 'Well, I'll see you in ninety days. I have to feed some children. I'll pay you, don't worry'. And when he objected, she pulled out her pistol (which, as a midwife travelling alone through the hills, she had a permit to carry) and said 'Martin, if you try to take this grub away from me, God knows that if they electrocute me for it tomorrow, I'll shoot you six times a minute'.

Source: From *A People's History of the United States* by Howard Zinn (1980)

### **c. The middle class**

Although middle income Americans were in a better financial position, they were often less prepared psychologically for the Depression. Many felt deep shame about even modest economic setbacks. They stopped going to churches and clubs, shunned their former friends, and turned down social invitations. They were less likely to live surrounded by extended families to which they could turn for emotional and material support. Even when their immediate financial support was not dire, many felt that their world was falling apart.

Even the very wealthy suffered:

- Jewellers Marcus and Company cut the price of emerald rings from \$50,000 to \$37,500
- Pullman reduced rates on upper berths by 20% on their luxury railroad cars
- New York Yankee star Babe Ruth had to accept a salary cut
- Managers of the Empire State Building ended the pretext that all offices were rented by stopping lifts running from the 47<sup>th</sup> to 67<sup>th</sup> floors.

### **d. Ethnic minorities**

Contraction of the economy led to a rise in racial and ethnic discrimination. Some employers and white workers insisted that white citizens be given preference in employment.

- On Californian fruit farms it became standard practice to employ white people before Mexicans who traditionally undertook the work
- Chinese immigrants in New York found problems in their main line of work – laundry
- Blacks suffered increased violent attacks. They were laid off before whites. In April 1930 the number of blacks out of work was 4 to 6 times higher than the number of whites. Black workers tended to be concentrated in occupations that were affected by the economic downturn: unskilled manufacturing, construction, mining, lumber and domestic labour. Black rural workers found their migratory path to employment in northern cities was now generally

closed. The wage cuts during the Depression drove many Black families to the brink of starvation.

### **Government Response to the Great Depression**

Hoover thought that the primary role of the federal Government should be to co-ordinate private, state and local efforts rather than launch major initiatives of its own. A Federal programme would unbalance the budget, weaken local and state governments, create a permanent class of public dependants, deprive the individual of a sense of responsibility and destroy the nation's moral fibre. The key to recovery was restoring business confidence, which meant avoiding unsettling actions and balancing the federal budget. The Government view was summed up by Treasury Secretary Andrew Mellon who said, "People will work harder, live a more moral life". Values will be adjusted and enterprising people will pick up the wrecks from less competent people."

#### **a. Failure of the self-help ethic**

It became obvious very quickly that the institutions to which working class families traditionally turned to in times of trouble – churches, ethnic associations and unions - were unable to deal with mass unemployment and its effects. Private charities and local authorities proved incapable of handling relief of such dimensions.

#### **How did this affect those in need?**

The winter of 1930/1 saw relief payments halved and those given wholly inadequate. Cities began taking desperate measures. Many discriminated against non-whites. By 1931, most local Governments were running out of money for relief. Charities were providing only 6% of the aid needed and State and local Government agencies could not even begin to provide the shortfall. States were receiving less in taxes as unemployment rose. They had to cut rather than expand their services. Michigan reduced funds from \$2 million in 1921 to \$832,000 in 1932. In Arkansas, schools were closed for 10 months a year. Teachers in Chicago went unpaid during the winter of 1932-3. Hoover refused to commit federal funds for basic needs and so many needy families were dropped from relief rolls. The inevitable result was that many people went hungry. *Fortune Magazine* estimated in September 1932 that 38% of the total population was receiving no income. According to one survey, in 1932 only 25% of the jobless were receiving aid. This did not include the 11 million farm workers, many of who were in difficulties.

Charities naturally suffered a decline in their revenue during the Depression; at the very time there was most pressure on their funds. Informal self-help was helping a little more. Unions and community organisations established programmes to aid the unemployed. In Seattle, the Unemployed Citizens' League organised self-help on a large scale. The unemployed were allowed to pick unmarketable fruit and vegetables by nearby farmers, and to cut wood on scrub timberland. Food and firewood obtained in this way were exchanged with barbers who cut hair, seamstresses who mended clothes, carpenters who repaired houses and doctors who treated the sick. In Pennsylvania 20,000 unemployed miners, working in teams, dug coal from company property and sold it in local towns cheaper than their previous employer could. When, in 1934, the coal company took them to court local jurors would not convict them and local jailers would not imprison them.

Hoover was reluctant to admit failure despite evidence that the President's policies were not working. He believed that the country's problems were psychological more than economic, so issued a stream of reassuring statements.

#### **b. Government policies**

Hoover was not the mean-spirited, callous man depicted by his opponents, but a sensitive soul who cared deeply about people's sufferings.

- He constantly gave generously to charity, cut his own and state official salaries by 20% to help provide revenues for recovery measure and in public he was optimistic. In March 1930 he said, 'All the evidence indicates that the worst effects of the Crash upon unemployment will have passed during the next 60 days'. This led many to say he had lost touch with reality. When he told the press that unemployment was falling, this created considerable resentment among many of the jobless. The result of his constant public hopefulness was that he gradually lost all credibility.
- However, Hoover could not abandon his idea of self-help and voluntary co-operation. The President was still adamantly opposed to direct federal relief to individuals.

When the Depression began in 1929 Hoover was sure that the formula of hard work and minimum interference from Government that had worked so well in the past would soon restore prosperity. However, as the economic situation deteriorated he realised that the Government would have to do something to provide relief for the poor and encouragement for business and industry.

- Secured a pledge from employers to maintain wage rates and avoid redundancy
- At Hoover's request, Congress voted \$423 million for a Government building programme to provide new jobs. One scheme was the construction of the Hoover Dam on the Colorado River.
- Attempted to stabilise and bolster grain, cotton and other agricultural produce prices through newly created federal farm bonds. Surplus produce was bought at the commercial rate. However, by 1932 the Farm Board had spent its budget of \$500 million and grain prices fell again. It did not have a big enough budget, and the efforts to persuade farmers to reduce production voluntarily went unheeded.
- Tried to reduce foreign competition by raising tariffs. The Hawley Smoot Act of 1930 increased tariffs by 50% on many farm products and manufactured goods imported from foreign countries. However, foreign countries retaliated by raising tariffs on American goods entering the countries and trade fell.
- Released gold to support the dollar and expanded credit facilities. Hoover worked tirelessly to combat the Depression.

### **Reconstruction Finance Corporation (RFC)**

In January 1932 the Reconstruction Finance Corporation (RFC) was created. It was Hoover's most radical measure to combat the Depression.

- The RFC lent state and municipal Governments \$1.5 billion for public works and a further \$3,000 million for relief. Eligible states had to declare virtual bankruptcy and the works undertaken had to produce revenues that would eventually pay off the loans.
- Provided loans totalling \$150 million to businesses, in order to enable them to increase employment.
- Authority to lend up to \$2 billion to rescuer banks, insurance companies, railroads and construction companies in distress. Designed to restore confidence particularly in financial institutions. 90% of loans went to small/medium banks, 70% in small towns.
- Critics saw the RFC as giving direct relief to businesses while offering nothing to individuals in distress. The Government argued that the largest businesses were the biggest employers so it made sense to help them in the war against unemployment.

### **Why did the Depression last so long?**

#### **1. Foreign economic crises**

When the American Depression spread to Europe, Hoover said it was vice versa. He blamed foreign countries; it was their weakness that stifled trade. In 1929 American credit dried up so the value of international trade fell. But historians would say that American tariffs restricted

trade. Germany was badly affected and stopped paying her reparations. Tensions grew in Europe.

## 2. Nature of business

Non-Government intervention meant that industries often came under the control of individuals or small groups who could control wages, prices and output to maximise profits. The country was left with a problem of overproduction. Relatively low wages and an unequal distribution of prosperity meant that the population was under-consuming and that, unless new forms of demand could be found, the economy would continue to stagnate.

## 3. Totality of the Depression

a) No sector of industry remained immune. There was therefore an absence of alternative employment opportunities. Usually as one area contracts, the rise of another takes the workforce, this did not happen.

b) Because both rural and urban areas suffered, neither could help the other.

## 4. Lack of Government expansion

Too many goods were being produced and too few consumers could afford to buy them – unregulated capitalism. It was argued by some economists at the time that if capitalist economy could not maintain a balance between the power of consumption and earnings, then, the Government should intervene to do so. This would involve a far greater role to be played by Government – increasing the tax of the rich, to undertake public works to increase employment and to kick-start the economy. Prevailing Governments in America had been opposed to this.

## Responsibility

Herbert Hoover had served under Presidents Harding and Coolidge as Secretary of Commerce, responsible for business and industrial affairs. Andrew Mellon, Hoover's Secretary of the Treasury, had been in that post since 1921. Were they to blame?

Post Wall Street Crash jingle:

Mellon pulled the whistle  
Hoover rang the bell  
Wall Street gave the signal  
And the country went to hell.

Hoover's programme made very little impact on the Depression. He had failed to understand the scale of the problems or to come up with new ideas that were capable of dealing with them. Hoover's policies were simply not far reaching enough to address the depth of the Depression. He was prepared to do something; but nowhere near enough. Unemployment continued to rise and was particularly severe in some cities such as Chicago, where in 1933 unemployment reached 40%. Matters were made worse because at that time, there was no national system of unemployment benefit.

The electorate appeared to blame Hoover, for although he had won the 1928 election with 58% of the votes; he only received 40% when he lost the 1932 election. Many years later Richard Nixon said that, 'Hoover had the misfortune to hold office at the wrong time'.

## The Human Cost of the Great Depression

In 1932 the popular singer Rudy Vallee was asked by President Hoover to sing something that would take people's minds off the worries of the Great Depression that had begun with the Wall Street Crash of 1929. Instead, he sang the song that summed up for many the agony of those times: 'Buddy, can you spare me a dime?' It was about a man who had helped build the American dream and now found himself reduced to begging in the street. There were many such in 1932, the worst year of the Depression. Between 15 and 17 million men were unemployed, and since most of them represented families, that meant that millions more were plunged into poverty.

*Fortune* magazine estimated that year that 34 million Americans were without any income whatsoever, and that figure excluded 11 million farming families, most of whom were also reduced to a state of poverty.

There was no unemployment benefit and strong opposition to suggestions that there should be. Responsibility for public aid was left to private charities and local authorities, if they could find the money. With some honourable exceptions, the rich showed themselves cruelly indifferent to the problem. All classes were affected: New York department stores were demanding college degrees from those seeking work as elevator operators; on Long Island a registered nurse was found starving on a private estate where she had slept for two weeks wrapped in newspapers and rags. Hundreds slept rough in the city parks; thousands, unable to find even a soup kitchen, rooted for food in garbage pails; in country districts they ate weeds. Men without work developed new skills for keeping alive. A man with a nickel could buy a cup of coffee, and then ask for another cup of hot water free; by mixing the water with the tomato ketchup on the counter he could make a kind of soup.

Newspapers stuffed under the shirt kept out the worst of the cold; and shoes could be lined with cardboard. People sold their most precious possessions to buy food for their children. Many died from exposure, and a large proportion of the population was suffering severe malnutrition. Others committed suicide rather than face the shame of going on public relief.

Two million Americans, mostly men, were living like nomads in 1932, crossing and re-crossing the country, often clinging to the rods under railroad car, in a desperate search for work. Some states posted armed guards on the highways to turn them away: local authorities charged impoverished strangers with vagrancy and threw them out of town or into jail; for many this was welcome since it offered shelter and basic food. An employment agency in Manhattan had 5,000 applications for 300 jobs. An Arkansas man walked 900 miles looking for work. In Washington State men were reported to be starting forest fires so that they would be hired to put it out. In the early 1930s emigration from the United States exceeded immigration; in New York there were 350 applications a day from people wanting to emigrate to the Soviet Union.

Many thousands of dispossessed farmers, facing financial ruin after three years of drought, which compounded the effects of the Depression, joined the breadlines or packed their households in Model T Fords and headed west to find work as fruit pickers in California.

The Depression, bad enough elsewhere in the world, was a calamity for the United States. Apart from the absence of federal welfare provision, which led so many into destitution, the psychological effects were traumatic, many of the jobless suffered feelings of guilt about their inability to provide for themselves or their families. At the fringes of society a minority became convinced that Marxism or fascism could solve the problems that seemed to have brought the country to the brink of disaster. The majority instead voted in 1932 for President Roosevelt and his New Deal policies of welfare and public works. These did not produce immediate results as progress was slow, and in 1937-38 there was another trough of depression, when 5 million people who had obtained jobs in the New Deal again found themselves unemployed. Those who had suffered so badly clung to the belief that, in time, things would get better. Thanks in part to rearmament for the Second World War, they did.

## FDR, Alphabet Agencies, Sick Chickens and Social Security

**On 4 March 1933 on a cold grey Saturday with a threat of rain in the air, Franklin D Roosevelt took the oath as President of the United States.**

To many people on that damp Saturday morning it seemed that the whole American way of life was crumbling. The nation's total earnings were now barely half of what they had been in 1929. Hundreds of thousands of Americans were without homes and without sufficient food. Everyday saw more of them unemployed.

At last Roosevelt appeared. Leaning on the arm of his son, he walked stiffly down a red-carpeted ramp to the crowded platform on the steps in front of the Capitol. Here, resting his hand on his own family bible, he repeated the solemn words of the oath of office in a clear and resounding voice.

He returned to the crowd. Now he was their President, their chosen leader. Silently the people waited to hear what he had to offer them. Almost immediately he struck a note of hope. "Let me assert my firm belief that the only thing we have to fear is fear itself." He then attacked the business leaders whose dishonesty and incompetence had helped to cause the disastrous collapse of the nation's economic life. He promised that in the future the activities of these 'money changers', as he called them, would be closely watched and controlled by Government. He promised, too, that the Government would give help to the millions of unemployed, to the farmers unable to sell their crops, to those who had lost their homes. "This nation asks for action, and actions now" he ended.

It was a declaration of war. War against poverty, against hunger and against despair – and Roosevelt wasted no time in firing the first shots. Driving back through the crowded streets to the White House, he plunged into immediate action.

**O'Callaghan, page 67**

Roosevelt promised a 'New Deal for the American people'. He launched upon a far-reaching programme of reform intended to:

- Halt the Depression
- Create the conditions for economic growth, and
- Give a fairer distribution of wealth.

His 'New Deal' policy was a daring programme that challenged the role of the federal government and increased the executive power of the presidency. Roosevelt was able to intervene in and regulate businesses and industries that before the economic crisis would have been unacceptable. A new mood of optimism encouraged businessmen to invest and to take on new employees. Nicknamed 'the Champ', Roosevelt used his famous 'fireside chats' over the radio to win support.

### Banking

Between the election and the inauguration, the economy had taken a nosedive; since 1930, 5,000 banks had run out of

To some, the policy was not radical enough.

- Wanted more Government control of banking, even nationalisation.
- Should not have subsidised banks to cover incompetence just so they could stay in business.
- Large banks had more control over smaller ones.

money. State Governors had closed many banks as crowds of panic-stricken depositors clamoured to draw out their savings. The banking structure was in danger of collapse.

On March 6 Roosevelt closed all the US banks for 4 days to give Treasury officials time to draft emergency legislation. Roosevelt called Congress together on 9 March. He asked for the Emergency Banking Act to be passed to restore the public's confidence in the system. Government officials would inspect the accounts of every bank. Only those with properly managed accounts would reopen. Only 30 minutes were spent discussing this Act before Congress voted unanimously for it. Within a week solvent banks were reopened.

On Sunday 12 March Roosevelt delivered his first 'fireside chat' over the radio. It was an intimate talk that gave the impression that he was there in the listeners' living room. The message on this occasion was simple. "I can assure you that it is safer to keep your money in a reopened bank than under your mattress." They took his advice and the banking crisis was over. When the banks reopened, queues of people were waiting to put money back. Public confidence had been restored.

### **The First Hundred Days – 8 March to 16 June**

Now that Roosevelt had won public confidence, he had no intention of losing it. He asked Congress to grant him powers as if a foreign enemy had attacked the USA. There was little problem with this demand. The political journalist Walter Lippmann wrote – "The danger we have is not that Congress will give FDR too much power but that it will deny him the power he needs."

The first 100 days were possibly the most frenzied and energetic of any President. A flood of proposals for new laws poured from Roosevelt to Congress – and most of them became the laws of the land with astonishing speed. Indeed it may be no exaggeration to say that at the end of the 100 days, the USA was transformed.

New Deal officials were young men and women, just out of law or graduate school, who were given extraordinary responsibility. Other New Dealers were university professors, businessmen, experts from industry and social workers. Women long active in social reform movements filled many posts dealing with relief or labour relations. Collectively they were known as 'The Brain Trust'. Bright, energetic, with new ideas and methods, self-confident and with infectious enthusiasm, the Brain Trust improvised solutions to the nation's problems; they also jockeyed for the attention of the President, who liked to play them off against each other. Night after night officials worked into the early hours of the morning thrashing out the details of new schemes for tackling the crisis. Washington bustled with activity.

### **The Alphabet Agencies**

Much emergency legislation was passed which resulted in the setting up of many 'alphabet agencies' to tackle problems.

The early aims of the New Deal programmes were designed for:

- **RELIEF:** to stop people from starving and losing their homes
- **RECOVERY:** to revive the economy
- **REFORM:** to make the USA a better place to live in.

In the long term, Roosevelt wanted to set people to work again. This took time but action was needed to tide people over their immediate difficulties – to feed, clothe and shelter them.

On 15 March Congress voted for an Emergency Act to cut Government spending. It cut the pay of Government employees; ex-soldiers' pensions were cut and also the budgets of Government departments by 25%. Nearly \$1 billion was saved.

**Name:** Civilian Conservation Corps (CCC)  
**Date:** 30 March 1933  
**Aim:** To recruit unemployed young men to undertake conservation work in the countryside

For a \$1 a day, the young men lived in camps run by the army, doing conservation work such as tree planting, strengthening river banks, and cutting fire-breaks in forests. Blacks and white volunteers were to be paid and treated the same. However, many southern states, whites were given preference and many camps were segregated. By August 1933 the CCC had given work to 250,000 young men and overall it provided 3 million young unemployed men with temporary work while exposing them to rustic living.

**Name:** Federal Emergency Relief Administration (FERA)  
**Date:** 12 May 1933  
**Aim:** To help the individual states to pay for emergency schemes such as soup kitchens to feed the poor

The Federal Government granted \$500 million to provide food and other necessities for the 15 million unemployed. It gave \$1 of this money to the state Governments for every \$3 that they spent on helping the unemployed. Over 3 years it spent \$1 billion, 2% of the national income. Benefits varied from state to state. Monthly payments were 10 times more in New York than in Mississippi. Despite regulations, many states and local agencies favoured whites. Even with its problems, FERA represented an enormous expansion of federal responsibility for the poor and unemployed.

Many states operated a means test principle before issuing any relief:

But the FERA programme left much to be desired. People on direct relief felt humiliated. Applying for assistance was like making a formal admission of inadequacy. The applicant's esteem suffered another blow when an investigator entered his home to ascertain whether his application was truthful. Relief recipients were often too proud to go to the depot to accept surplus commodities because they may be recognised. One New York small businessman, determined to hold to the values he had learned, insisted on paying his rent regularly, even at the sacrifice of the family's food. The government, after learning how little the family spent for food, cut off the relief altogether, suspecting fraud.

From *New Deal and War* by W E Leuchtenburg 1964

In 1935, Roosevelt received a letter from Redville, Georgia.

"They gave us Black folks nothing but a few cans of pickle meat and to white folks they give blankets, bolts of cloth and things like that."

**Name:** Civil Works Administration (CWA)  
**Date:** November 1933  
**Aim:** To provide temporary work of public value to the unemployed

In charge of the CWA was Harry Hopkins who believed in the self-respect of the unemployed. He said that keeping workers on the dole took away their pride and destroyed their morale, whereas “work relief preserves a man’s morale. It saves his skill. It gives him a chance to do something socially useful.” Within two months the CWA had found work for 4 million people, paying them 40c an hour for unskilled jobs and \$1 an hour for skilled work.

Over the next three months CWA workers did all the following:

- Built or improved 800,000km of roads
- Built or improved 40,000 schools
- Built 500 airports and improved 500 more
- Built 150,000 public toilets.

The wages that the CWA provided people with increased the national purchasing power and contributed to the recovery of the American economy. But not all CWA jobs had an obvious public value. Unemployed actors were hired to give free shows, out-of-work researchers to research the history of the safety pin, and the CWA hired 100 people in Washington to walk the streets with balloons to frighten pigeons away from public buildings. Many people said that the cost of work relief was much greater than the cost of the dole. People soon began to call such jobs ‘boondoggles’, after plaits that American cowboys made from strips to pass time when they had no work to do.

C B Baldwin, a Government official at the time, remembered the CWA like this:

They set up this CWA very hurriedly. Any guy could just walk into the county office – they were set up all over the country – and get a job. Leaf raking, cleaning up libraries and painting the town hall...Within a period of 60 days four million people were put to work.

From an interview given in *Hard Times* by Studs Terkel 1970

Some businessmen who felt that the jobs created were pointless refused to support the CWA. This caused Roosevelt to end it in 1934. In 1935 it was replaced by a more carefully thought out organisation called the Works Progress Administration (WPA).

**Name:** Tennessee Valley Authority (TVA)  
**Date:** 18 May 1933  
**Aim:** To rejuvenate the valley of the Tennessee River

The TVA was an ambitious plan to build 16 dams on rivers in and around the Tennessee Valley, an area covering 7 states. The 45 million people living here had been badly hit by the Depression. This would provide work for thousands of construction workers and, once the dams were built, they would provide cheap hydroelectric power for industry. The dams would also help to control the frequent floods that wrecked the Tennessee Valley. Land reclamation, afforestation, re-housing, education and recreation projects were also undertaken. It is the best known and most widely admired New Deal achievement and dramatically raised living standards throughout the region.

**Name:** Home-Owners Loan Corporation  
**Date:** 13 June 1933  
**Aim:** To lend homeowners money at low rates of interest to help keep up with their mortgage repayments

Many Americans lacked a decent home to live in. Cities contained some of the worst slums in the western world. For the following three years the HOLC helped more than one million homeowners to keep their homes, by lending them money to see them through their difficulties at especially low rates of interest.

In 1934 the **Federal Housing Administration** was established. It gave ordinary families a better chance of buying their own homes. The Government gave help with mortgages. The FHA helped house buyers by making sure that they did not have to put down such a large deposit on a house as in previous years. They were also given longer to pay back the mortgage.

**Name:** National Industrial Recovery Act (NIRA)  
**Date:** 16 June 1933  
**Aim:** To introduce joint economic planning between government and industry to stabilise prices, restrict competition, expand purchasing power, relieve unemployment and improve working conditions.

Roosevelt on the NIRA:

The Law I have just signed was passed to put people back to work – to let them buy more of the products of the farms and the factories and to start our businesses going at a living rate again.

This important Act was in two parts and set up following administrations, both designed to help industry recover from the Depression:

1. Public Works Administration (PWA)
2. National Recovery Administration (NRA)

**Name:** Public Works Administration (PWA)  
**Date:** 16 June 1933  
**Aim:** To create work for unemployed industrial workers by beginning large scale work schemes of public benefit

Harold Ickes organised the PWA. He was very careful with the Government's money. He believed that work schemes organised by the PWA should produce things of lasting use to the nation, and he hated the idea of paying workers to 'boondoggle' – doing work that was of no or little value. He was to create work for some of the millions of industrial workers who were unable to get jobs with private employers.

One of the underlying aims of the PWA was to create purchasing power and so help private industry to recover from the Depression by providing people with the money to buy its products. In other words it was supposed to 'prime the pump'.

Between 1933 and 1939 the PWA did all the following:

- Spent \$3.3 billion
- Built 70% of America's schools
- Built 35% of America's hospitals
- Built 4 big river dams and bridges
- Electrified the New York-Washington railway
- Built two aircraft carriers, 4 cruisers and 4 destroyers for the US Navy
- Built 50 military airports
- Built a new sewage system in Chicago.

An Emergency Housing Section cleared large areas of city slums and replaced them with modern flats and houses. Unfortunately the rents of these new homes were at first too high for the former slum-dwellers to afford.

Many people admired Ickes and the PWA for their achievements. But the PWA only provided work for skilled and able-bodied workers. It did nothing for the millions who lacked a skill or trade.

**Name: National Recovery Act (NRA)**

**Date: 16 June 1933**

**Aim: To provide industrial employers to pay their workers fair wages and to charge fair prices for goods**

The main problem faced by business and industry was having more goods for sale than people could afford to buy. This meant that production and prices had to be cut and workers laid off or at least making them work longer hours for less pay. Profits for factory owners fell while unemployment rose. Workers sometimes tried to improve their pay and conditions by forming trade unions. But the factory owners went to amazing lengths to stop them.

The intention of the NRA was to persuade industries to introduce codes of fair practice that would maintain wages and prices above a certain level and, in some cases, restrict production. Employers were encouraged to improve working conditions by providing a minimum weekly wage and a maximum working day, abolish child labour and accept the right of their workers to organise trade unions. In return, businesses that co-operated with the scheme had the right to display the blue eagle symbol with the motto 'We Do Our Part'. Consumers were encouraged to buy only from them.

Roosevelt tried to build up enthusiasm for the NRA by organising a huge advertising campaign, which included the New York parade. At first the campaign seemed to be working. Industrial production prices and wages all rose.

The Cotton Textile code fixed a 40-hour week, abolished child labour under the age of 16, provided a minimum wage of \$12 in the southern states and \$13 in the north, and allowed cotton workers to join the trade unions.

## Problems

Unfortunately the NRA quickly ran into difficulties.

- Some employers broke the codes agreed with their workers. No employer could be compelled by law to obey the rules. The result was that some employers, e.g. Henry Ford, simply ignored them. Although in theory they could be prosecuted for this, many were not.
- Small businesses often found it difficult to keep to the terms of the codes and still make enough profit.
- Employers who hated trade unions refused to sign the codes. When faced with anti-union employers some workers went on strike. By September 1933 nearly 300,000 workers were on strike, and the number was increasing rapidly.
- Some employers refused to pay the minimum wages.
- Some companies tried to use the codes as a way of raising prices to unfair heights.
- Businesses that had signed the codes frequently complained about them. For example, small laundries that signed the Cleaners and Dryers code were in cutthroat competition with each other. They often accused each other of breaking the code on minimum wages. When the NRA took legal action against the laundries that broke the code, complaints were made that the Government was bullying small businessmen trying to make an honest living. If the NRA took no action, the other companies complained that the codes meant nothing since their rivals could get away with breaking them.
- The NRA disillusioned many farmers, small businessmen and consume groups. Prices and production controls, they argued, were written primarily for and by large corporations. The effect was to keep prices up, stifle competition and retard economic growth.

The Act generated great enthusiasm but soon turned sour. Within a year of being created, it seemed that the 'happy days' were still a long way off in industry. The NRA was upsetting both

the workers, whom it aimed to protect, and the businessmen, whom it aimed to encourage. It was difficult to enforce, too hastily produced and was drawn up by big business for their benefit. In January 1936 the NRA was invalidated by the Supreme Court, no one lamented its passing.

### **The Supreme Court and the 'Sick Chickens' case**

**In Brooklyn, a borough of New York City, four brothers ran a small but profitable poultry business, the Schechter Poultry Corporation. In 1933, along with other poultry firms in New York, they signed a NRA code agreeing to the NRA rules of fair prices, fair wages and fair competition.**

**In 1935 the Schechter brothers broke one of the codes by selling a batch of diseased chickens that were not fit for human consumption. The NRA took them to court where they were found guilty of breaking a NRA code. The brothers appealed against the verdict and the Supreme Court heard their appeal.**

**The Supreme Court declared that the NRA had no right to meddle in the New York poultry trade. The judges said it was a matter for the New York State Government to investigate the matter. The Schechter brothers were acquitted and the code they signed was declared illegal.**

**The case of the 'sick chickens' destroyed the NRA. When the Supreme Court declared that the poultry code was illegal, all similar codes automatically became illegal. Overnight the NRA had to scrap 750 of its codes.**

**In all, the Supreme Court tried 16 cases concerning the 'alphabet agencies' of the New Deal. In 11 of these cases the judges declared that President Roosevelt, Congress and the NRA had acted against the country's constitution. They said that Roosevelt had misused his power of the federal Government; and that the latter was responsible only for national affairs affecting all states. The state Government was responsible for all other affairs.**

**Roosevelt was furious with such decisions. He believed his agencies were dealing with national matters affecting all states. But the Court would not change its mind, so Roosevelt was powerless to stop the nine judges from wrecking his New Deal programme.**

**Name: Work Progress Administration (WPA)  
Date: 1935  
Aim: To set people to work on carefully chosen jobs that would be valuable to the community**

The WPA was set up to aid the unskilled. It soon became the country's biggest employer, 2 million people each year. By 1937, 11,000 schools and other public buildings had been built; to the 43,000 miles road were laid many large scale projects such as the cutting of the Lincoln Tunnel connecting Manhattan to New Jersey and the building of Fort Knox in Kentucky were undertaken.

But construction work was not the only kind provided by the WPA. Unemployed writers were set to produce guidebooks to the country's various states and cities. Artists were employed to paint murals on the walls of post offices and other public buildings. Actors were formed into groups and sent to tour the country and perform their plays. Thousands of students were found part-time jobs so that they would be able to continue with their studies. Photographers were employed to make a photographic record of the Depression years.

Altogether, between 1935 and 1941, the WPA gave employment to 2 million Americans a year. The wages and self-respect gained were equally valuable. Critics of the WPA projects said the work was of dubious value and there was little involved. The WPA only employed people for a year. It did not employ anyone who could find work elsewhere.

### **The Works Progress Administration (WPA) employed 20% of America's labour force**



**“WPA workers built LaGuardia Airport in New York and the elaborate municipal recreation centre in San Francisco’s Aquatic Park; salvaged the riverfront in St Louis; sealed thousands of abandoned coal mines in Kentucky and West Virginia to prevent the seepage of sulphuric acid into the creeks and rivers; excavated Indian mounds in Georgia and New Mexico; took over the entire municipal function of the bankrupt and desolated city of Key West, Florida.”**

### **End of the 100 days**

On 16 June the special session of Congress came to an end. The 100 days were over. Throughout the country, the impact of the New Deal was felt directly by millions. For some it meant a job or relief or farm benefits. The money that people earned was spent so bringing back life to the nation's trade and business. More customers appeared in the shops and sales of food and clothing, especially, began to rise. As people started to buy again, shopkeepers, farmers and manufacturers began to benefit from the money the Government was spending on providing work for the unemployed. Roosevelt described this process as 'priming the pump' – the money the Federal Government was spending was like a fuel, flowing into the nation's economic machinery and starting it moving again.

Between 1933 and 1934:

- National income rose by 23%
- Unemployment dropped by 2 million
- Factory wages rose.

The popularity of the New Deal also had a personal dimension. Millions of Americans felt that Roosevelt and his wife Eleanor truly cared about them and that they understood their problems. He was the first American President who spoke to the dispossessed, the have-nots in society and they wrote thousands of letters to the White House to recount their personal troubles and to express gratitude. Many ordinary people saw FDR as their saviour. Roosevelt once said that everyone was against him except the electorate. After 2 years in office Roosevelt had won remarkable backing, which became evident in the 1934 Congressional election. The Democrats received a 2/3 majority in the Senate and over 3/4 of the House of Representatives. Most of the newly elected Democrat senators and representatives were strong backers of the New Deal, if anything they sought more radical measures.

There was an admission that things were starting to change. Walter Lippmann, a leading journalist, wrote shortly afterwards:

“In the 100 days from March to June we became an organised nation confident of our power to...control our own destiny.”

By 1935, Roosevelt's New Deal was running into serious difficulties:

- Congressional elections of 1934 had returned a more radical House of Representatives that demanded new initiatives. Roosevelt was politically astute enough to see the need to steal the thunder from radicals. He did not want millions of voters moving away from mainstream politics.
- Trade unions were organising strikes.
- Roosevelt was becoming increasingly frustrated with the wealthy and big business that opposed him more and more. He believed that he was elected to save big business but felt let down with its lack of support.
- The Supreme Court was declaring the FDR had acted illegally in setting up the New Deal agencies. It was overruling much of the legislation.

Roosevelt's plan to solve these problems was to begin all over again, to produce a renewed flood of legislation that was more varied and extensive. He sought to retain the initiative, as Congress may be too radical! He was preparing to do battle with the Supreme Court that he saw as increasingly out of touch and conservative.

### **Dealing with the Supreme Court**

Roosevelt had to make sure that the Supreme Court would not continue to interfere in his work by declaring that his reforms were illegal. The nine judges of the Supreme Court were all old; no one was under 60. Roosevelt put forward the Judicial Reform Act, saying that the Court had too much work to do and gave Roosevelt the right to appoint six extra judges. Roosevelt would naturally appoint judges whom he knew agreed with him. When the Supreme Court heard what was in store, they immediately stopped opposing Roosevelt. They did nothing to change the Acts that were to follow. Simply by threatening to appoint new judges who agreed with him, Roosevelt succeeded in overcoming the opposition of the Supreme Court but it made him very unpopular.

**Name: National Labour Relations Act**

**Date: July 1935**

**Aim: To give the right of union membership to workers and check for unfair labour practices**

The **National Labour Relations Act** was passed only 6 weeks after the Supreme Court killed the NRA. Roosevelt only accepted it when it got through Congress and the Senate. This act gave workers the right to join and to form trade unions. It stopped employers from punishing those who

did so. It set up a National Labour Relations Board to bargain on behalf of workers and to restrict management from using 'unfair labour practices'. It also acted as a watchdog to ensure that both employers and workers obeyed the act. This greatly expanded the role of Government in industrial relations and opened the way to unprecedented growth of union membership and power.

### **Strikes**

As a result of the National Labour Relations Act union membership rose from 2 million in 1933 to 9 million in 1938. In 1935 a new trade union, the Congress of Industrial Organisation (CIO), was set up for unskilled workers in big industries such as cars and steel. By 1937 it had over 3 million members. Bitter conflicts between labour and employers occurred. Demands for closed shops – only one union in the workplace – met ferocious resistance from employers because if industrial action was called the business could be held at random by the union. The workers went on strike. Some of these strikes were 'sit-down' strikes in which the workers occupied the factories to prevent any work from being done. Others were all-out strikes, involving violent clashes with all those who tried to break up their picket lines. Employers resorted to lockouts, employing strikebreakers and company spies and relied heavily on private armies – 'goon squads' and help from local police to deal with trouble.

The strikes succeeded. Under pressure from the Government, the managers allowed the workers to use their legal right to join the CIO. But the violence and disruption involved in the strikes added to Roosevelt's unpopularity.

**Name:** Social Security Act  
**Date:** 1935  
**Aim:** To provide a basic level of security for the weakest members of society

The most important and lasting of all the New Deal laws was the Social Security Act. Welfare legislation in the US lagged behind Europe. In 1935 only 27 out of 48 states had old age pensions. Only one, Wisconsin, had unemployment benefit. The Social Security Act was the first attempt to provide for the welfare of society's weaker members on a national scale.

This Act set up:

- A national system of pensions for old people and widows. The payments fell between \$10 and a maximum of \$85 monthly, paid from taxes on earnings and employers' profits.
- Provided help for the blind and physically handicapped.
- Mothers with dependent children were paid up to \$20 a month.
- Set up a national system of unemployment insurance so the unemployed would receive financial help from State Government instead of local charities. It was intended that individual states would provide unemployment insurance, with aid from the Federal Government in the form of payroll tax rebates.

The aid provided to the blind, handicapped and mothers with children was known as 'categorical assistance'. It was based on the 'matching grant' principle that is, the Federal Government contributed as much money for this group as did each state. Better off states had far more money to distribute than others. For example, in 1939 dependent mothers and children in Arkansas received \$8.10 a month, whilst in Massachusetts the rate was \$61.07 a month.

The provision of social security was wholly inadequate and its scope was conservative and limited. This caused problems with the more radical elements in society.

- Some employers could not afford to pay and it was too expensive to collect. It was envisaged that they would become involved at a later date.

- Unemployment benefit was paid for only 16 weeks at a very low rate.
- So many people applied for unemployment benefit that many areas tried to avoid having to pay it.
- Many states compensated for unemployment benefit by cutting back on other relief schemes. Increased residential qualifications and more stringent forms of means testing were introduced.
- Ex-President Hoover thought that it encouraged people to be lazy and that it took away their dignity by treating them as numbers rather than as individuals.
- The most in need, e.g. farm labourers, casual workers and domestic servants were excluded – this amounted to millions of needy people.
- It was believed that the wealthy should pay more towards the scheme.
- Pensions were low and were not paid out until the 1940s.
- Pensions were paid out according to how much the recipient had paid in whilst working.
- The medical profession had fiercely opposed sickness benefit as the American Medical Association believed it would limit the right to set doctors to set fees. There were no health insurance clauses in the bill.
- It took powers away from individual states and concentrated it in Washington.

Despite these drawbacks, the Social Security Act was a major departure, a foundation, on which all subsequent administrations have built. Never before had there been a direct system of national benefit. FDR refused to fund it through taxes it had to be self-financing.

The Social Security Act sent out a loud message that the Government cared about people. As a result of it, millions of people were able to face life's problems with greater confidence. Roosevelt, according to his Secretary of Labour, regarded the Social Security Laws as the cornerstone of his administration and took greater satisfaction from it than anything else achieved on the domestic front.

**Name: Wealth Act**  
**Date: 1935**

Quite simply, the Government sought to raise more revenue through taxation to pay for the New Deal reforms. It seemed logical to do this by targeting those who could most afford it – prior to this, taxes for the rich had been minimal. This provoked an anguished cry, as it was perceived by those affected by it to strike at the heart of wealth in the USA. The newspaper tycoon William Randolph Hearst called it 'Soak the Successful' tax. But Roosevelt's main aim was not to see any major redistribution of wealth but rather to reduce the need for government deficit spending. The new tax raised comparatively little. Loopholes were found that clever lawyers could exploit. It did little to redistribute income but big business did begin to see Roosevelt as a traitor to his class. The Act did little by itself but set a precedent for the higher taxes of WW2.

### **A new depression**

During 1937 Roosevelt cut back the amount of money the Federal Government was spending. He did not want America to get into debt, and believed that the state Governments were able to deal with the problems of the Depression without more help from the Federal Government.

Unfortunately this cut in spending came at the same time as a decline in world trade. The sudden downturn of the economy in the late summer of 1937 ended 4 years of partial recovery and destroyed the illusion that the depression was beaten.

- Industrial production declined
- Stock market fell
- Unemployment rose by 4 million and stood at 10.5 million in 1938
- Steel and car production fell.

Roosevelt renewed heavy public spending though he didn't fully understand the situation. Congress responded to Roosevelt's request for large new appropriations for relief, public works and to approve a further modest instalment of reform. By the summer of 1938 the economy had resumed its slow upward climb. But public confidence in the administration had been further weakened.

### **The significance of the Second New Deal**

It is important to note that the administration was seen to be acting; to be doing something; addressing issues and concerns. It did continue to involve itself in everyday issues which were important to people whose concerns probably would previously have been ignored.

The 1930s were a time of national trauma. Though the first New Deal broadened the scope of Federal action far beyond what it had ever been before, it failed to put an end to hunger and misery. It failed to spark a sustained recovery and it failed to bring an end to the Depression.

The second New Deal saw the important expansion of the role of the federal, state and local Governments that was new:

- The worst excesses of capitalism were addressed
- The attacks on unfair competition aided small firms
- Trade unions were given a legal voice
- Introduced the first system of benefits
- Development of existing policies to aid relief and recovery

But

- Not all legislation was particularly effective
- Wealth/Revenue Act alienated people out of all proportion to its actual effect.

Some historians have said that the main difference between the first and second New Deal was that the first New Deal concentrated on relief and recovery whereas the second phase was more radical. Here, Roosevelt was genuinely trying to change the face of the USA, that he was favouring the poorer classes at the expense of the rich. The second New Deal concentrated more on social and economic reform; it was less interested in co-operating with business and more responsive to the needs of the less well off. The second New Deal concentrated on the creation of permanent reforms. This should not be exaggerated. Important elements of continuity existed between the first and second phase, i.e. in the commitment to preserve capitalism. It still remained shapeless, even chaotic, without any unifying philosophy.

After 1936 the New Deal was beset with problems and according to some historians petered out in 1938/9. It was ultimately, they argue, a failure because it did not radically change the face of the USA.

## **The New Deal on the land**

### **The Dust Bowl – rural conditions during the Depression**

If farmers faced only economic problems (see *Problems in the Economy*), their situation would have been bad enough, but during the very depth of the Depression another disaster arrived: drought. Lack of rain was first most severe in the east but then the centre of the dry spell moved to the Great Plains where temperatures reached 118° in Nebraska in 1934. Normal rainfall only returned in 1941. Between 1930 and 1936 over 20 million hectares of farmland in Kansas, Oklahoma, Texas, New Mexico and Colorado became desert. The area had once been animal grazing land, but during and since the First World War much of it has been ploughed up to grow crops. Without its covering of grass to protect it against the hot summers and fierce winters, the land turned into dust. The region became known as the 'Dust Bowl'.

**Source A: A Kansas wheat farmer described one of the windstorms that created the Dust Bowl:**

The wind increases its velocity until it is blowing at forty to fifty miles an hour. The fine dirt is sweeping along like at express-train speed, and when the very sun is blotted out visibility is reduced to some fifty feet, or perhaps you cannot see at all, because the dust has blinded you.

**From *An Empire of Dust*, written in the 1930s by Lawrence Svobida**

**Source B: A magazine reporter vividly described his impressions of the Dust Bowl:**

The Dust Bowl is a dying land. I have not seen more than two cars on the road that parallels the railroad track for a hundred miles or more. I have seen human beings only when passing bleak villages, consisting of a few shacks. Houses empty, yards empty. I have not seen a single child in these ghost-like, pathetic villages. The few people I saw looked like a lost people in a lost land.

I do not exaggerate when I say that in this country there is now no life for miles upon miles; no human beings, no birds, no animals. Only a dull brown land with cracks showing. Hills furrowed with eroded gullies – you have seen pictures like that in ruins of lost civilisations.

**From George Greenfield, in *Reader's Digest*, May 1937**

**AAA**

By 1933 many farmers had become desperate. Their average income was now less than one third of what it had been in 1929 – and farmers had been badly off even then. By 1933 many were leaving their crops to rot in the fields because selling prices were too low to cover even the harvesting costs. Roosevelt made helping the farmers one of his Government's most urgent tasks.

On 12 May the Agricultural Adjustment Administration (AAA) was created, as some federal officials were deeply sympathetic towards the plight of tenant farmers. The Act aimed to make farming more efficient by eradicating over-production. In many cases the AAA paid farmers to produce less. If smaller quantities were produced, prices would be higher and farmers would be better off. As a result, ¼ of growing cotton crops were ploughed under, 6 million pigs were slaughtered and part of the tobacco harvest destroyed. Farmers who agreed to reduce this were compensated. This bought benefits to large-scale farmers as their profits soon began to rise but not necessarily to anyone else. Year by year prices crept upward.

There was bitter criticism of the plan. To many it seemed wicked that, at a time when so many people were hungry, the Government should actually be paying farmers not to grow food.

| Wheat prices (cents per bushel) |          |
|---------------------------------|----------|
| 1933                            | 33       |
| 1934                            | 69       |
| 1935                            | 89       |
| 1937                            | Over 100 |

By 1936 farmers' incomes had risen by 50% from their 1933 level.

- The Government gave farmers who agreed to grow soil-strengthening crops such as clover or beans money grants.
- Grants were made to help farmers to buy machinery and fertilisers.
- A government-backed insurance agency was set up, so that the farmers could insure his crops against destruction and other natural hazards.

Many American farmers were much better off by the end of the 1930s. Generally speaking, those who benefited most were those who owned their land.

For tenants and farm labourers, life continued to be very hard right through the 1930s. Many lost both their jobs and their homes as they were replaced with tractors and other laborsaving equipment.

### **Westward Movement**

In 1933 the glaring sun turned the soil into light and lifeless dust. In November, strong winds, picking up the dust, swirled it away in great choking clouds. As a result, from 1933 onwards thousands of these refugees went westwards, hoping that beyond the Rocky Mountains in California they would find some way of making a decent living.

The people of California looked with suspicion and fear as ragged strangers poured down from the mountains into their towns and villages. Often the only work to be found was fruit and vegetable picking. Both jobs were badly paid and short lasting and the plights of most of these dust bowl refugees continued to be hard. It was only when the outbreak of the Second World War made Californian factories begin to take on more workers that life began to improve for them.

But, despite the hard times experienced by the farmers driven off the land, those who managed to hold on gradually saw things improving. By 1939, incomes from farming were more than double what they had been in 1932. Most of this increase was the result of a steady rise in the prices of farm products.

There was a belief that, on the whole, the AAA had helped make a better life for farmers.

- Better prices they were getting for their crops
- Homes and lives had been made more comfortable and farming was made easier by Government schemes to bring electricity into rural areas
- More secure position due to Government-supported crop insurance schemes.

It is not surprising that throughout the 1930s the farmers were amongst Roosevelt's strongest supporters.

More problems for the New Deal agencies lay ahead in the Supreme Court. In 1936 the Court declared that the AAA, the Agricultural Adjustment Administration, went against the constitution and was therefore illegal. The nine judges said that giving help to farmers was a matter for each state government, not the federal government. Thus all the help that the AAA gave to farmers suddenly stopped.

The AAA had only helped farm owners. Sharecroppers who farmed the owner's land for a share of the crop, tenants who rented their land, and farm workers who neither owned nor rented land received no help from it. In fact, by encouraging farmers to plant less the AAA forced many sharecroppers, especially cotton sharecroppers in southern states, and tenants to leave the land. Landlords had no reason to keep on sharecroppers when there were no crops to be harvested so they evicted them.

In 1935 Roosevelt set up the Resettlement Administration with the Farm Society Administration (FSA). This was more successful in helping poor farmers than the earlier schemes. By 1944 the FSA had helped to settle 11,000 families and provide 41,000 long-term low interest loans to help tenants and sharecroppers to buy their own farms. The FSA also established labour camps, which helped migrants from the Dust Bowl looking for work in California to improve their living conditions. Typically, however, the improvement was only slight. The FSA might have done more, but it was opposed by members of Congress from the southern states. One reason for their opposition was that the FSA provided integrated camps and medical schemes both for Black and White migrant workers at a time when the races were still strictly segregated in the south.

## **An Evaluation of the New Deal**

Ed Johnson, Democrat Governor of Colorado said the New Deal was “the worst fraud ever perpetuated on the American people”. It may be an extreme view but it can be argued that on the surface, at the least, the actual achievements of the New Deal do seem rather slender.

- In 1933, 18 million Americans were unemployed. By 1939, 9 million were still out of work. The Government seemed reconciled that there would be 5 million permanently unemployed.
- Personal national income stood at \$86 billion in 1929 but only \$73 billion in 1939, despite a rise in population of 9 million at this time.
- One in five (20%) Americans required some sort of relief in 1939.
- Wages averaged \$25.03 per week in 1929 and \$23.86 in 1939.
- Agricultural policies did nothing to help the worst-off farmers.
- Roosevelt was reluctant to spend excessively on Federal projects. He failed to see that massive Government expenditure was necessary to offset the reduction in spending in the private sector as a result of the Depression.
- Social welfare programmes were seriously deficient.
- Failure to embark on a large-scale housing programme. Federal Government built only 180,000 homes.
- A series of mass movements were demanding radical action to end the Depression and a redistribution of the nation’s wealth.
- Supporters could only claim partial recovery had been achieved.
- By 1939 there had been great improvements in some sectors of the economy. Would these have occurred in spite of New Deal policies and not because of them?
- Opponents grumbled that Roosevelt was acting like a dictator.
- Some feared that Roosevelt’s administration was moving towards fascism.
- Many believed that crucial agencies such as the NRA handed too much power to the very businessmen whose practices had led to the Depression.
- Labour leaders were disappointed by Governments half-hearted support of trade unions.
- Most conservative businessmen opposed federal deficit spending fearing higher taxes and undermining of the economy (spending more than was raised in taxes). They feared too much Government intervention in the economy. There was a belief that government power and budgets had to be reduced drastically, while business should be given greater voice in setting national policy.
- New Deal had created huge bureaucracies that interfered in local affairs and failed to curb that power of the rich.
- By 1939, the USA was the slowest of the major countries to recover from the Depression.

Many Americans remained suspicious of the New Deal and it never received unqualified praise. However, according to Raymond Moley, one of Roosevelt’s trusted lieutenants, the New Deal did restore ‘confidence in the American people, confidence in their banks, in their industrial system and in their Government. Confidence was the buoyant spirit that brought back prosperity.’ But

Moley denied that the New Deal solved America's problems. One of Harry Hopkin's helpers, Joe Marcus, claimed that big business went along with the New Deal in order to defend the existing American society against a possible socialist or even communist alternative. "It was a very unusual Depression in the history of societies. It lasted so long and went so deep." And of course, the New Deal did not end the Depression. Unemployment, successfully checked during 1934-36, crept up again after 1937. World War 2, not the New Deal would solve that particular problem.

### **The Success of the New Deal**

When summing up the New Deal, we must not forget the enormity of the problems facing Roosevelt in 1933. No incoming President faced greater economic difficulties and these were compounded by a desperate loss of confidence among producers and consumers. New Deal legislation came about largely in response to crises.

### **Helping the less fortunate**

One of the greatest achievements of the New Deal was in changing the expectations of the role of Federal Government. This is particularly true of the help for the less fortunate members of society.

- Relief agencies offered hope to millions.
- 4/5 of Americans did not require relief by 1939.
- Direct relief enhanced the role of Federal Government. This led to a greater role for state and local governments to work as partners in many of the programmes.
- Laid the foundations of the welfare state.
- In many respects, the New Deal broke new ground. Roosevelt frankly accepted that unemployment relief was a national responsibility.

There were new departures in Government responsibilities. Social Security Act (1935) set up a national system of old age pensions and unemployment benefit for the first time. It is true that the amounts spent were inadequate for the needs of a population suffering from a prolonged Depression but important precedents were set by the introduction of this legislation. It could be built upon in the future.

### **Economic reform**

The New Deal was mainly intended to rescue the capitalist system from its worst excesses and provide a more rational framework in which it could operate.

- Roosevelt hoped his measures would facilitate a resurgence of capitalist confidence and expansion.
- Many New Deal measures favoured big business. Roosevelt courted their support and was often disappointed when he received a lukewarm response.
- Banking system was reformed and made more efficient.
- Recognised that Federal Government had a role as an arbiter in relations between employers and employees.
- Unemployment decreased by 50%.
- Incomes of farmers rose by 50%.
- Prices fell more than wages; people in work could afford to buy more as a result.
- Introduced much needed controls on banks and the stock exchange.
- Established the idea that Government was responsible for regulating the economy.

### **Political reform**

- The expansion of Government was to be permanent.
- Raised the Presidential office to a new peak of prestige and power. Revitalised and dramatised the Presidency and expanded the President's law making functions.

- Federal bureaucracy expanded to cope with the demands being made upon it both then and in the future.
- Americans began to look to Federal Government rather than the states for action to meet problems.
- Federal and State Governments were involved in joint programmes that increased their activities and made them more dependent on the Federal Government for funding and action.
- Attempted to reform the Supreme Court but failed but the threat was enough to ensure that the Supreme Court became more sympathetic to New Deal.
- Supreme Court began to adopt a more flexible view of the constitution.
- Democrat party was identified as the party of social reform with an agenda to help the have-nots in society. Republican Party became the party of wealth and big business.
- The New Deal brought about major political realignment. It created coalitions of blacks, urban blue-collar workers, unions, southern conservatives and eastern liberals that survive largely in tact in the Democrat Party today.
- More people took part in presidential elections in the 1930s.
- Introduced and skilfully stage managed the press conference and mastered the use of the radio.

However, the New Deal was not a cohesive programme – indeed, it often seemed contradictory. It may even be a misnomer to call it a programme at all. Possibly, it might best be seen as a series of measures to deal with specific crises, with little overall plan. But there is little doubt that at the end of the New Deal legislation, the USA changed forever and the role of Government was greatly enhanced.

### **Social reform**

- Restored national morale.
- More and more people felt they had a stake in their country. It made people feel like they belonged.
- Expectation was set that the Government would take responsibility for people's problems.
- Relief and benefits provision showed many people that the President was someone who was interested in them and who cared.
- Social Security Act and relief/job creation agencies expanded the role of Government in the lives of people considerably.
- Conferred new status on minorities. Roosevelt appointed an unprecedented number of Catholics, Jews, Blacks and women to Federal jobs.

### **The legacy of the New Deal**

The most important legacy is that the New Deal restored hope and confidence in capitalist and democratic systems in the USA. Vast majority of Americans wanted existing system to provide solutions for the Depression and so averted revolution in the USA. The power of the state was enhanced in an unprecedented way.

Industrial relations had moved into the modern era with more of a partnership between Government, employer and the unions. The Government recognised the importance of big business. American capitalism grew in reality through the power of big business. Although it may not always have been realised at the time, it was largely big business that the economic measures of the New Deal aided.

People and states increasingly looked to Government for help with their problems. Tentacles of Government, it seemed, were everywhere. The USA had moved from individualism with very little Government interference to a country where the Government increasingly took responsibility for people's lives and welfare. Depression showed the economy wasn't self-righting and that

American Dream was largely impossible to realise unaided, however much initiative and ability to work hard one might possess.

Roosevelt was clearly providing Americans with the New Deal he had promised in 1932. But whether or not the New Deal would work remained to be seen.

- New Deal legislation resulted from pressure from business leaders, politicians, reformers and the growing mobilisation of popular discontent. Roosevelt was usually receptive to theories. He was an experimenter and an improviser but he would ignore ideas he did not like. He chopped and changed between people who suggested a way forward but there was no overall plan or outlook to follow.
- New Deal had a single overriding aim: to save American capitalism. Certainly, the New Deal involved an unprecedented amount of national economic planning. It also entailed public spending on a scale so massive that Roosevelt's campaign promises to balance the budget couldn't be kept.
- Not everything that Roosevelt did was new. He lent money to the Reconstruction Finance Committee (RFC) to extend policy of refinancing home and farm mortgages – he simply continued what Hoover began.
- Roosevelt's style gave the impression that he had embarked on a bold new course, but his early legislation was actually the programme of the more conservative members of the Democrat party.