Notes: Great Depression
1929 - 1939

Events Leading to the Great Depression

1923	3 August	Coolidge is sworn in as president
	13 August	U.S. Steel inaugurates 8-hour day
1924	18 March	Soldiers' Bonus bill
1926	26 February	Revenue Act becomes law
1927	11 February	McNary-Haugen bill
1929	2 February	Federal Reserve Board forbids its members to make loan to anyone who wants to buy stock on margin
	4 March	Hoover becomes president
	15 June	Congress passes Agricultural Marketing Bill
	22 October	President of New York's National City Bank states "I know of nothing fundamentally wrong with the Stock Market"
	23 October	Steady decline in stock market; signs of panic in New York Stock Exchange
	24 October	Black Thursday; collapse of New York Stock Exchange; 13,000,000 shares sold
	29 October	Black Tuesday – it's too late!
	13 November	$30,000,000,000 lost in value of stocks on New York Exchange; Chicago Market collapses
	31 December	Hoover delivers his annual message to Congress and declares that confidence in Nation's business has now been restored
1930	2 January	Economy sinking; prices falling; national income collapsing; unemployment at 4 million; Hoover meets with Congressional leaders to discuss public works plan
	31 March	Congress adopts Public Buildings Act
	4 April	Congress votes 300 million to build state roads
	4 June	Hawley-Smoot Tariff bill passed
	October	Unemployment at 4,500,000; Hoover says Federal government must remain aloof
	2 December	Hoover recognizes problem and asks Congress for $150 million for constructing public works
	11 December	Bank of United States (a private New York bank with 60 branches and 400,000 depositors) closes; 1300 bank closures in one year

1931	2 January	5 million unemployed
	27 February	Congress overrides Hoover's veto and passes Bonus Loan bill
	3 March	Hoover vetoes Muscle Shoals bill
	22 July	Kansas farmers produce a bumper crop of wheat; prices collapse
	October	827 more United States banks close
1932	27 February	Glass-Steagall Banking Act
	21 July	Hoover signs Relief and Reconstruction Act
	22 July	Federal Home Loan Bank Act
	8 November	Roosevelt wins election; 13 million are unemployed

Notes - Herbert Hoover & Great Depression

I. Background - "rugged individualism"

II. Views on Presidency/Economy

III. Stock Market Crash

A. Causes
   1. buying on margin - borrowing money to invest in stock
   2. overpriced stock
   3. unparalleled (though superficial) prosperity in 1920's
   4. inefficient government regulation of Stock Market
   5. Black Thursday - October 24, 1929 - 13 million shares dumped on market

B. Impact - **destroyed American confidence in future**

C. bank failures in 1920's

D. Federal Reserve tightened credit - should have done the opposite

E. high American tariffs reduced trade with Europe (already in economic slump)

IV. Hoover's Response to Stock Market Crash

A. Agricultural Marketing Act (1929)

B. conferences of businessmen, labor leaders, mayors, governors - encouraged them to speed up public works projects

C. National Credit Corporation & Emergency Committee for Employment

D. Tax Cut (December 1929) - did little to stimulate spending

E. went on radio to convince American people that structure of American economy was sound

V. Collapsing Economy

- 1300 banks failed in 1930
- factories cut back on production; some closed
- 4 million Americans out of work in 1930, 12 million in 1932
- 200,000 evictions in NYC in 1930
- GE stock: $396 per share in 1929, $34 in 1932
- US Steel stock: $261 to $21

VI. Impact of Depression

- people went hungry - parents sacrificed food so their children could eat
- sense of shame -especially for men
- decreased marriage & divorce rates, decreased birthrates
- families forced to move in with relatives

*Hoover blamed the Depression on the international economy - ***Americans blamed Hoover***

Hoovervilles -

Hoover Blankets -

***Hoover could not communicate personal empathy for the poor and unemployed**

VII. Hoover Legislation

A. Reconstruction Finance Corporation (1932)

B. Federal Home Loan Bank Act (1932) - became the basis for FDR's Federal Housing Administration

C. Glass-Steagall Banking Act (1932)

- Hoover stayed away from too much government intervention - believed in loans, not direct subsidies
- Thought it the responsibility of state and local governments, as well as private charities to provide direct relief to the unemployed and needy
- Believed the greatest problem in America was its lack of confidence

VIII. Bonus Army - 1932

The Great Depression
and
The New Deal
1929 - 1941

Once I built a tower, to the sun.
Brick and rivet and lime,
Once I built a tower,
now it's done,
Brother, can you spare a dime?

"Brother, Can you Spare a Dime?"
E.Y. Harburg and Jay Gomey, 1932

When the new Democratic president, Franklin D. Roosevelt, said in his 1933 inaugural address, "the only thing we have to fear is fear itself," he struck a note that the millions who listened to him on the radio could well understand. In 1933, after having experienced nearly four years of the worst economic depression in U.S. history, the American people were gripped by fear for their very survival.

In the past, banks and businesses had periodically plunged into a crisis or "panic," that was usually of brief duration. In the previous century, there had been financial panics in 1819, 1837, 1857, 1873, and 1893. Only the last two of these economic crises had led to long-term depressions extending beyond a year. Usually, if banks closed for lack of funds or stock market prices dropped off suddenly, there would be a serious economic downturn for several months followed by recovery and eventual prosperity. These ups and downs were thought to be nothing more than the natural pulse of a free enterprise economy. They constituted what was called a business cycle.

This depression of the 1930s seemed much different. It lasted far longer, caused more business failures and unemployment, and affected more people - both of the middle class and the working class - than any other preceding period of hard times. This was in fact, not just an ordinary depression, but the Great Depression. Before it was over, two presidents - Herbert Hoover and Franklin Roosevelt - would devote 12 years to seeking the elusive path toward recovery.

Causes and Effects of the Depression, 1929 - 1933

What caused a spectacular business boom of the 1920s to collapse in October 1929?

Wall Street Crash

The ever-rising stock prices had become both a symbol and a source of wealth during the prosperous 1920s. A "boom" was in full force both in the United States and in the world economy in the late 1920s. On the stock exchange on Wall Street in New York City, stock prices had kept going up and up for 18 months from March 1928 to September 1929. On September 3, the Dow Jones Industrial Average of major stocks had reached an all-time high of 381. An average investor who bought $1000 worth of such stocks at the time of Hoover's election (November 1928) would have doubled his or her money in less than a year. Millions of people did invest in the boom market of 1928 - and millions lost their money in October 1929, when it collapsed.

Black Thursday and Black Tuesday. Although stock prices had fluctuated greatly for several weeks preceding the crash, the true panic did not begin until a Thursday in late October. On this Black Thursday - October 24, 1929 - there was an unprecedented volume of selling on Wall Street, and stock prices plunged. The next day, hoping to stave off disaster, a group of bankers bought millions of dollars of stocks in an effort to stabilize prices. The strategy worked for only one business day, Friday. The selling frenzy resumed on Monday. On Black Tuesday, October 29, the bottom fell out, as millions of panicky investors ordered their brokers to sell, when there were practically no buyers to be found.

From that day on, prices on Wall Street kept going down and down. By late November, the Down Jones index had fallen from its September high of 381 to 198. Three years later, stock prices would finally hit bottom at 41, less than one-ninth of their peak value.

Causes of the Crash

While the collapse of the stock market in 1929 may have triggered economic turmoil, it alone was not responsible for the Great Depression. The depression throughout the nation and the world was a combination of factors that matured during the 1920s.

Uneven distribution of income. Wages had risen relatively little compared to the large increases in productivity in corporate profits. Economic success was not shared by all, as the top 5 percent of the richest Americans received over 33 percent of all income.

Stock market speculation. Many people in all economic classes believed that they could get rich by "playing the market." People were no longer investing their money in order to share in the profits of a company - they were speculating that the price of a stock would go up and that they could sell it for a quick profit. Buying on margin allowed people to borrow most of the cost of the stock, making down payments as low as 10 percent. Investors depended that the price of the stock would increase so that they could repay the loan. When stock prices dropped, the market collapsed, and many lost everything they had borrowed and invested.

Excessive use of credit. A belief of both consumers and business that the economic boom was permanent led to increased installment buying. Advertising stimulated consumers' desire for the exciting new appliances and cars that were being produced.

Overproduction of consumer goods. Business growth, aided by increased productivity and use of credit, had produced a volume of goods that workers with stagnant wages could not continue to purchase.

Weak farm economy. The prosperity of the 1920s had never reached farmers, who had suffered from overproduction, high debt, and low prices since the end of World War I. As the depression continued through the 1930s, severe weather and a long drought added to farmers¿' difficulties.

Government policies. During the 1920s, the government had complete faith in business and did little to control or regulate it. Congress enacted high tariffs which protected U.S. industries but hurt farmers and international trade. Years of neglect and bad practices would prove difficult for the government to correct.

Global economic problems. Nations had become more interdependent because of international banking, manufacturing, and trade. Europe had never completely recovered from World War I, but the United States failed to recognize Europe's problems. It insisted that all of its wartime loans to European nations be repaid in full, but at the same time its tariff policies greatly reduced the sale of European goods in America. War reparations burdened Germany throughout the 1920s. Some relief came with U.S. loans under the Dawes Plan, but with the market collapse in 1929, these loans were suspended. Europe's difficulties contributed to the depression in the United States, which in turn became the worldwide Great Depression.

Effects

It is difficult to imagine the pervasive impact of the Great Depression. While in retrospect it can be seen that the economic decline reached bottom in 1932, complete recovery came only with the beginning of another world war, in 1939. The Great Depression's influence on American thinking and policies has even extended beyond the lifetimes of those who experienced it.

Various economic statistics serve as indicators that track the health of a nation's economy. The U.S. Gross National Product - the value of all the goods and services produced by the nation in one year - dropped form $104 billion to $56 billion in four years, while the nation's income declined by over 50 percent. Some 20 percent of all banks closed, wiping out 10 million savings accounts. By 1933, the number of unemployed had reached 13 million people, or 25 percent of the workforce, not including farmers.

Politically, Republican domination of government was at an end. The power of the federal government would increase greatly, as the people accepted dramatic, far-reaching changes in policies.

The social effects of the depression were felt by all classes. Those who had never fully shared in the prosperity of the 1920s, such as farmers and African Americans, had increased difficulties. Poverty and homelessness increased, as did the stress on families, as people searched for work. Mortgage foreclosures and evictions became commonplace.

**Traditional steps for recession:

1. churches and charities
2. local government
3. state government

Hoover's Policies

At the time of the stock market crash, nobody could foresee how long the downward slide would last. President Hoover was wrong - but hardly alone - in thinking that prosperity would soon return. The president believed the nation could get through the difficult times if the people took his advice about exercising voluntary action and restraint. Hoover urged businesses not to cut wages, unions not to strike, and private charities [see previous page] to increase their efforts for the needy and the jobless. Until the summer of 1930, he hesitated to ask Congress for legislative action on the economy, afraid that government assistance to individuals would destroy their self-reliance. Gradually, President Hoover came to recognize the need for more direct government action. However, he took the <u>traditional view</u> that public relief should come from state and local governments, not the federal government. [refuses to provide federal relief ("the dole")]

Responding to a Worldwide Depression

Repercussions from the crash on Wall Street were soon felt in the financial centers of Europe. Through trade and the Dawes Plan for the repayment of war debts, European prosperity was closely tied to that of the United States. Hoover's first major decision concerning the international situation was one of the worst mistakes of his presidency.

Hawley-Smoot Tariff (1930). In June 1930, the president signed into law a schedule of tariff rates that was the highest in history. The Hawley-Smoot Tariff passed by the Republican Congress set tax increases ranging from 31 percent to 49 percent on foreign imports. Its political purpose was to satisfy U.S. business leaders who thought a higher tariff would protect their markets from foreign competition. In retaliation for the U.S. tariff, however, European countries enacted higher tariffs of their own against U.S. goods. ***The effect was to reduce trade for all nations***, meaning that both the national and international economies sank <u>further into depression</u>.

Debt moratorium. By 1931, conditions became so bad both in Europe and the United States that the Dawes Plan for collecting war debts could no longer continue. Hoover therefore proposed a moratorium (suspension) on the payment of international debts. Britain and Germany readily accepted, but France balked. The international economy suffered from massive loan defaults, and banks on both sides of the Atlantic scrambled to meet the demands.

Domestic Programs: Too Little, Too Late

By 1931, Hoover was convinced that some government action was needed to pull the U.S. economy out of its doldrums. He therefore supported and signed into law programs that offered assistance to indebted farmers and struggling businesses.

(1) Federal Farm Board. The Farm Board was actually created in 1929, before the stock market crash, but its powers were later enlarged to meet the economic crisis. The board was authorized to help farmers stabilize prices by temporarily holding surplus grain and cotton in storage. The program, however, was much too modest to handle the continued overproduction of farm goods.

(2) Reconstruction Finance Corporation (RFC). This federally funded, government-owned corporation was created by Congress early in 1932 as a measure for propping up faltering railroads, banks, life insurance companies, and other financial institutions. The president reasoned that emergency loans from the RFC would help to stabilize these key businesses. The benefits would then "trickle down" to smaller businesses and ultimately bring recovery. Democrats scoffed at this measure, saying it would only help the rich. [RFC loans $ to banks, increases their debt, limits effectiveness]

Despair and Protest

By 1932, millions of unemployed workers and impoverished farmers were in a state bordering on desperation. Some decided to take direct action to battle the forces that seemed to be crushing them.

Unrest on the farms. In many communities, farmers banded together to stop banks from foreclosing on their farms and evicting them from their homes. Farmers in the Midwest formed the <u>Farm Holiday Association</u>, which attempted to reverse the drop in prices by stopping the entire crop of grain harvested in 1932 from reaching the market. The effort collapsed after some violence.

<u>Bonus March</u>. Also in the desperate summer of 1932, a thousand unemployed World War I veterans marched to Washington D.C. to demand immediate payment of the bonuses promised them at a later date (1945). They were eventually joined by thousands of other veterans who brought their wives and children and camped in improvised shacks near the Capitol. Congress failed to pass the bonus bill they sought. When two veterans were killed in a clash with police, Hoover ordered the army to break up the encampment. General <u>Douglas MacArthur</u>, the army's chief of staff, used tanks and tear gas to destroy the shantytown and drive the veterans from Washington. ***The incident caused many Americans to regard President Hoover as heartless and uncaring.***

The Election of 1932

The depression's worst year, 1932, happened to be a presidential election year. The disheartened Republicans renominated Hoover, who warned that a Democratic victory would only result in worse economic problems.

Democrats. At their convention, the Democrats nominated New York Governor Franklin D. Roosevelt for president and Speaker of the House John Nance Garner of Texas for vice president. As a candidate, Roosevelt pledged (1) a "new deal" for the American people, (2) the repeal of Prohibition, (3) aid for the unemployed, and (4) cuts in government spending.

Results. In voters' minds, the only real issue was the depression, and which candidate - Hoover or Roosevelt - could do a better job of ending the hard times. Almost 60 percent of them concluded that it was time for a change. The Roosevelt-Garner ticket carried all but six traditional Republican states in the Northeast. Desperate for change, many Socialists deserted their candidate, Norman Thomas, to support Roosevelt. Not only was the new president to be a Democrat, but ***both houses of Congress were to have large Democratic majorities.***

Hoover as lame-duck president. In 1933, the Twentieth Amendment (referred to as the *lame-duck amendment*) shortened the period between the presidential election and inauguration. The amendment set a new date, January 20, for the start of a president's term in office. But for four months between Roosevelt's election and his inauguration in March 1933, Hoover was still president. He was a "lame duck," however, powerless to cope with the depression, which continued to get worse. Hoover offered to work with the president-elect through the long period, but Roosevelt declined, not wanting to be tied to any of the Republican president's ideas.

Franklin D. Roosevelt's New Deal

The new president was a distant cousin (5th) of President Theodore Roosevelt and was married to Theodore's niece, Eleanor. More than any other president, Franklin Delano Roosevelt, popularly known by his initials, FDR - expanded the size of the federal government, altered its scope of operations, and greatly enlarged the powers of the presidency. He would dominate the nation and the U.S. government for an unprecedented stretch of time, 12 years and two months. He would prove to be one of the most influential world leaders of the 20th century.

F.D.R.: The Man

Franklin Roosevelt was the only child of a wealthy New York family. He personally admired cousin Theodore and followed in his footsteps as a New York state legislator and then as U.S. assistant secretary of the navy. Unlike Republican Theodore, however, Franklin was a Democrat. In 1920 he was the Democratic nominee for vice president. He and James Cox, the presidential candidate, lost badly in Warren G. Harding's landslide victory.

Disability. In the midst of a promising career, Roosevelt was paralyzed by polio in 1921. Although he was wealthy enough to retire, he labored instead to resume his career in politics and eventually regained the full power of his upper body, even though he could never again walk unaided and required the assistance of crutched, braces, and a wheelchair. Roosevelt's greatest strengths were his warm personality, his gifts as a speaker, and his ability to work with and inspire people. In 1929, campaigning from a car and in a wheelchair, FDR was elected governor of New York. In this office, he instituted a number of welfare and relief programs to help the jobless.

Eleanor Roosevelt. Roosevelt's wife, Eleanor, emerged as a leader in her own right. She became the <u>most active first lady in history</u>, writing a newspaper column, giving speeches, and traveling the country. Though their personal relationship was strained, Eleanor and Franklin Roosevelt had a strong mutual respect. She served as the president's social conscience and influenced him to support minorities and the less fortunate.

New Deal Philosophy

In his campaign for president in 1932, Roosevelt offered vague promises but no concrete programs. He did not have a detailed plan for ending the depression, but he was committed to action and willing to experiment [FDR's approach - vs. Hoover's] with political solutions to economic problems.

The three R's. In his acceptance speech at the Democratic convention in 1932, Roosevelt had said: "I pledge you, I pledge myself, to a new deal for the American people." He had further promised in his campaign to help the "forgotten man at the bottom of the economic pyramid." During the early years of his presidency, it became clear that his New Deal programs were to serve three R's: relief for people out of work, recovery for business and the economy as a whole, and reform of American economic institutions.

Brain Trust and other advisors. In giving shape to his New Deal, President Roosevelt relied on a group of advisors who had assisted him while he was governor of New York. Louis Howe was to be his chief political adviser. For advice on economic matter, Roosevelt turned to a group of university professors, known as the Brain Trust, which included Rexford Tugwell, Raymond Moley, and Adolph A. Berle, Jr.

The people that Roosevelt appointed to high administrative positions were the most diverse in U.S. history, with a record number of African Americans, Catholics, Jews, and women. His secretary of labor, for example, was Frances Perkins, the first woman ever to serve in a President's cabinet.

The First Hundred Days

With the nation desperate and close to the brink of panic, the Democratic Congress looked to the new president for leadership, which Roosevelt was eager to provide. Immediately after being sworn into office on March 4, 1933, Roosevelt called Congress into a hundred-day-long special session. During this brief period, Congress passed into law every request of President Roosevelt, enacting more major legislation than any single Congress in history. So numerous were the new laws and agencies that they were commonly referred to by their initials: WPA, AAA, CCC, NRA.

Bank holiday. In early 1933, banks were failing at a frightening rate, as depositors flocked to withdraw funds. As many banks failed in 1933 (over 5,000) as had failed in all the previous years of the depression. To restore confidence in those banks that were still solvent, the president ordered the banks closed for a bank holiday on March 6, 1933. He went on the radio to explain that the banks would be reopened after allowing enough time for the government to reorganize them on a sound basis. [RFC buys stock in banks]

Repeal of Prohibition. The new president kept a campaign promise to enact repeal of Prohibition and also raised needed tax money by having Congress pass the Beer-Wine Revenue Act, which legalized the sale of beer and wine. Later in 1933, the ratification of the Twenty-first Amendment repealed the Eighteenth Amendment, bringing Prohibition to an end.

Fireside chats. Roosevelt went on the radio on March 12, 1933, to present the first of many fireside chats to the American people. The president assured his listeners that the banks which reopened after the bank holiday were now safe. The public responded as hoped, with the money deposited in the reopened banks exceeding the money withdrawn.

Financial recovery programs. As the financial part of his New Deal, the new president persuaded Congress to enact the following measures:

* The Emergency Banking Relief Act authorized the government to examine the finances of banks closed during the bank holiday and reopen those judged to be sound.
* The Federal Deposit Insurance Corporation (FDIC) guaranteed individual bank deposits up to $5,000.00
* The Home Owners Loan Corporation (HOLC) provided refinancing of small homes to prevent foreclosures.
* The Farm Credit Administration provided low-interest farm loans and mortgages to prevent foreclosures on the property of indebted farmers.

Programs for relief for the unemployed. A number of programs created during the Hundred Days related to the needs of the millions of unemployed workers.

* The Federal Emergency Relief Administration (FERA) offered outright grants of federal money to states and local governments that were operating soup kitchens and other forms of relief for the jobless and homeless. The director of FERA was Harry Hopkins, one of the president's closest friends and advisers.
* The Public Works Administration (PWA), directed by Secretary of the Interior Harold Ickes, allotted money to state and local governments for building roads, bridges, dams, and other public works. Such construction projects were a source of thousands of jobs.
* The Civilian Conservation Corps (CCC) employed young men on projects on federal lands and paid their families small monthly sums. [members live in camps, wear uniforms - semi-military; work on soil erosion]

* The Tennessee Valley Authority (TVA) was a huge experiment in regional development and public planning. As a government corporation, it hired thousands of people in one of the nation's poorest regions, the Tennessee Valley, to build dams, operate electric power plants, control flooding and erosion, and manufacture fertilizer. The TVA sold electricity to residents of the region at rates that were well below those previously charged by a private power company.

Industrial recovery program. The key measure in 1933 to combine immediate relief and long-term reform was the National Recovery Administration (NRA). Directed by Hugh Johnson, the NRA was an attempt to guarantee reasonable profits for business and fair wages and hours for labor. With the antitrust laws temporarily suspended, the NRA could help each industry (such as steel, oil, and paper) set codes for wages, hours of work, levels of production, and prices of finished goods. The law creating the NRA also gave workers the right to organize and bargain collectively. The complex program operated with limited success for two years before the Supreme Court declared the NRA unconstitutional (***Schecter v. U.S.***)

Farm production control program. Farmers were offered a program similar in concept to what the NRA did for industry. The Agricultural Adjustment Administration (AAA) encouraged farmers to reduce production (and thereby boost prices) by offering to pay government subsidies for every acre they plowed under. [paid farmers not to plant] The AAA met the same fate as the NRA. It was declared unconstitutional in a 1935 Supreme Court decision. (because of the funding tax)

Other Programs of the First New Deal

Congress adjourned briefly after its extraordinary legislative record in the first Hundred Days of the New Deal. Roosevelt, however, was not finished devising new remedies for the nation's ills. In late 1933 and through much of 1934, the Democratic Congress was easily persuaded to enact the following:

* The Civil Works Administration (CWA) was added to the PWA and other New Deal programs for creating jobs. This agency hired laborers for temporary construction projects sponsored by the federal government.
* The Securities and Exchange Commission (SEC) was created to regulate the stock market and to place strict limits on the kind of speculative practices that had led to the Wall Street crash in 1929.
* The Federal Housing Administration (FHA) gave both the construction industry and homeowners a boost by insuring bank loans for building new houses and repairing old ones.
* Another new law took the US off the gold standard in an effort to halt deflation (falling prices). The value of the dollar was set at $35 per ounce of gold (but no longer were paper dollars redeemable in gold). [FDR's goal is to raise prices]

The Second New Deal

Roosevelt's first two years [1st New Deal] in office were largely focused on achieving one of the three R's: recovery. Democratic victories in the congressional elections of 1934 gave the president the popular mandate he needed to seek another round of laws and programs. In the summer of 1935, the so-called Second New Deal was launched. This batch of new legislation concentrated on the other two R's: relief and reform.

Relief Programs

Harry Hopkins became even more prominent in Roosevelt's administration with the creation in 1935 of a new relief agency, which Hopkins headed.

Works Progress Administration (WPA). Much larger than the relief agencies of the first New Deal, the WPA spent billions of dollars between 1935 and 1940 to provide people with jobs. After its first year of operation under Hopkins, it employed 3.4 million men and women who had formerly been on the relief rolls of state and local governments. It paid them double the relief rate but less than the going wage for regular workers. Most WPA workers were put to work constructing new bridges, roads, airports, and public buildings. Unemployed artists, writers, and actors were paid by the WPA to paint murals, write histories, and perform in plays.

One part of the WPA, the **National Youth Administration (NYA),** [led in Texas by LBJ] provided part-time jobs to help young people stay in high school and college or until they could get a job with a private employer.

Resettlement Administration (RA). Placed under the direction of one of the Brain Trust, Rexford Tugwell, the Resettlement Administration provided loans to sharecroppers, tenants, and small farmers. It also established federal camps where migrant workers could find decent housing.

Reform Programs

The reform legislation of the second New Deal reflected Roosevelt's belief that industrial workers and farmers need to receive more government help than members of the business and privileged classes.

National Labor Relations (Wagner) Act (1935). This major labor law of 1935 replaced the labor provisions of the National Industrial Recovery Act, after that law was declared unconstitutional. The Wagner Act guaranteed a worker's right to join a union and a union's right to bargain collectively. It also outlawed business practices that were unfair to labor. A new agency, the National Labor Relations Board (NLRB), was empowered to enforce the law and make sure that workers' rights were protected.

Rural Electrification Administration (REA). This new agency provided loans for electrical cooperatives to supply power in rural areas.

Federal Taxes. A revenue act of 1935 significantly increased the tax on incomes of the wealthy few. It also increase the tax on large gifts from parent to child and on capital gains (profits from the sale of stocks or other properties).

The Social Security Act ****[MOST IMPORTANT AND LASTING NEW DEAL PROGRAM]*****

The reform that, for generations afterward, would affect the lives of nearly all Americans was the passage in 1935 of the Social Security Act. It created a federal insurance program based upon the automatic collection of taxes from employees and employers throughout people's working careers. The Social Security trust fun would then be used to (1) make monthly payments to retired persons over the age of 65. Also receiving benefits under this new law were (2) workers who lost their jobs (unemployment compensation), (3) persons who were blind or otherwise disabled, and (4) dependent children and their mothers.

The Election of 1936 [A Re-Aligning Election}

The economy was improved but still weak and unstable in 1936 when the Democrats nominated Roosevelt for a second term. Because of his New Deal programs and active style of personal leadership, the president was now enormously popular among workers and small farmers. Business, however, generally disliked and even hated him because of his regulatory programs and prounion measures such as the Wagner Act.

Alf Landon. Challenging Roosevelt was the Republican nominee for president, Alfred (Alf) Landon, the progressive-minded governor of Kansas. Landon criticized the Democrats for spending too much money but in general accepted most of the New Deal legislation.

Results. Roosevelt swamped Landon, winning every state except Maine and Vermont and more than 60 percent of the popular vote. Behind their president's New Deal, the Democratic party could now count on the votes of a new coalition of popular support. Through the 1930s and into the 1960s, the Democratic coalition would consist of the Solid South, white ethnic groups in the cities [Jews, Catholics, immigrants] midwestern farmers, and labor unions.

In addition, new support for the Democrats came from African-Americans, mainly in northern cities, who left the Republican party of Lincoln because of Roosevelt's New Deal. [**New Deal Coalition dominates US politics: 1936 - 1968**]

Opponents of the New Deal

Opinion polls and election results showed that a large majority of Americans supported Roosevelt. Nevertheless, his New Deal programs were extremely controversial and became the target of vitriolic attacks by liberals, conservatives, and demagogues.

Liberal Critics (on the left, felt FDR was not going far enough - wanted more government intervention)

Socialists [led by Norman Thomas] and extreme liberals in the Democratic party criticized the New Deal (especially the first New Deal of 1933-1934) for doing too much for business and too little for the unemployed and the working poor. They charged that the president failed to address the problems of ethnic minorities, women, and the elderly.

Conservative Critics

More numerous were those on the right who attacked the New Deal for giving the federal government too much power. These critics charged that relief programs such as the WPA and labor laws such as the Wagner Act bordered on socialism or even communism. Business leaders were alarmed by (1) increased regulations, (2) the second New Deal's prounion stance, and (3) the financing of government programs by means of borrowed money - a practice known as deficit financing. Conservative Democrats, including former presidential candidates Alfred E. (Al) Smith and John W. Davis, joined with leading Republicans in 1934 to form an anti-New Deal organization called the American Liberty League. Its avowed purpose was to stop the New Deal from "subverting" the U.S. economic and political system.

Demagogues

Several critics played upon the American people's desperate need for immediate solutions to their problems. Using the radio to reach a mass audience, they proposed simplistic schemes for ending "evil conspiracies" (Father Coughlin), guaranteeing economic security for the elderly (Dr. Townsend), and redistributing the wealth (Huey Long).

Father Charles E. Coughlin. This Catholic priest ("the radio priest") attracted a huge popular following in the early 1930s through his weekly radio broadcasts. Father Coughlin founded the National Union for Social Justice, which called for issuing an inflated currency and nationalizing all banks. His attacks on the New Deal became increasingly anti-Semitic and Fascist (called the New Deal the "Jew Deal") until his superiors in the Catholic Church ordered him to stop his broadcasts.

Dr. Francis E. Townsend. Before the passage of the Social Security Act, a retired physician from Long beach, California, became an instant hero to millions of senior citizens by proposing a simple plan for guaranteeing a secure income. Dr. Francis E. Townsend proposed that a 2 percent federal sales tax be used to create a special fund, from which every retired person over 60 years old would receive $200 a month. By spending their money promptly, Townsend argues, recipients would stimulate the economy and soon bring the depression to an end. The popularity of the Townsend Plan persuaded Roosevelt to substitute a more moderate plan of his own, which became the Social Security system.

Huey Long. (greatest threat to FDR) From Roosevelt's point of view, the most dangerous of the depression demagogues was "the Kingfish" from Louisiana, Senator Huey Long. Immensely popular in his own state, Long became a prominent national figure by proposing a "Share Our Wealth" program that promised a minimum annual income of $5000 for every American family, to be paid for by taxing the wealthy. In 1935, Huey Long challenged Roosevelt's leadership of the Democratic party by announcing his candidacy for president. Both his candidacy and his populist appeal were abruptly ended when he was killed by an assassin.

The Supreme Court

Of all the challenges to Roosevelt's leadership in his first term in office, the conservative decisions of the U.S. Supreme Court proved the most frustrating. In two cases in 1935, the Supreme Court effectively killed both the NRA for business recovery and the AAA for agricultural recovery by deciding that the laws creating them were unconstitutional. Roosevelt interpreted his landslide reelection in 1936 as a popular mandate to end the obstacles posed by the Court.

Court re-organization plan. President Roosevelt did not have an opportunity to appoint any Justices to the Supreme Court during his first term. He hoped to remove the Court as an obstacle to the New Deal by proposing a judicial-reorganization bill in 1937. [FDR's biggest mistake] Critics called it a "Court-packing" bill. It proposed that the president be authorized to appoint to the Supreme Court an additional justice for each current justice who was older than a certain age (70.5 years). In effect, the bill would have allowed Roosevelt to add up to six more justices to the Court - all of them presumably of liberal persuasion.

Reaction. Republicans and many Democrats were outraged by what they saw as an attempt to tamper with the system of checks and balances. They accused the president of wanting to give himself the powers of a dictator. Roosevelt did not back down - and neither did the Congressional opposition. For the first time in Roosevelt's presidency, a major bill that he proposed went down to decisive defeat by a defiant Congress. Even a majority of Democratic senators refused to support him on this controversial measure.

Aftermath. Ironically, while Roosevelt was fighting to "pack" the Court, the justices were already backing off, their former resistance to his program. In 1937, the Supreme Court upheld the constitutionality of several major New Deal laws, including the Wagner (Labor) Act and Social Security acts. Also, as it happened, several justices retired during Roosevelt's second term, enabling him to appoint a majority on the Court and thereby ensure judicial support for his programs.

Rise of Unions

Two New Deal measures - the National Industrial Recovery Act of 1933 and the Wagner Act of 1935 - caused a lasting change in labor-management relations by legalizing labor unions. Union membership, which had slumped badly under the hostile policies of the 1920s, shot upward. It went from less than 3 million in the early 1930s to over 10 million (more than one out of four nonfarm workers) by 1941.

Formation of the C.I.O.

As unions grew in size, tensions and conflicts between rival unions grew in intensity. The many different unions that made up the American Federation of Labor (A.F. of L.) were dominated by skilled white male workers and were organized according to crafts. A group of unions within the A.F. of L. wanted union membership to be extended to all workers in an industry regardless of their race and sex, including those who were unskilled. In 1935 the industrial unions, as they were called, joined together as the Committee of Industrial Organizations (C.I.O.). Their leader was John L. Lewis, president of the United Mine Workers union. In 1936, the A.F. of L. suspended the C.I.O. unions. Renamed the Congress of Industrial Organizations, the C.I. O. broke away from the A.F. of L. and became its chief rival. It concentrated on organizing unskilled workers in the automobile, steel, and southern textile industries.

Strikes

Even though collective bargaining was now protected by federal law, many companies still resisted union demands. Strikes were therefore a frequent occurrence in the depression decade.

Automobiles. At the huge General Motors plant in Flint, Michigan, in 1937, the workers insisted on their right to join a union by participating in a sit-down strike (literally sitting down at the assembly line and refusing to work). Neither the president not Michigan's governor agreed to the company's request to intervene with troops. Finally, the company yielded to striker demands by recognizing the United Auto Workers union (U.A.W.). Union organizers at he Ford plant in Michigan, however, were beaten and driven away.

Steel. In the steel industry, the giant U.S. Steel Corporation voluntarily recognized one of the CIO unions, but smaller companies resisted. On Memorial Day, 1937, a demonstration by union picketers at Republic Steel in Chicago ended in four deaths, as the police fired into the crowd. Despite initial resistance, however, almost all the smaller steel companies agreed to deal with the CIO by 1941.

Fair Labor Standards Act

A final political victory for organized labor in the 1930s also represented the last major reform of the New Deal. In 1938, Congress enacted the Fair Labor Standards Act, which provided a host of regulations on businesses in interstate commerce. It established:

* a minimum wage (initially fixed as 40 cents an hour)
* a maximum workweek of 40 hours and time and a half for overtime
* child-labor restrictions on those under 16

Recall that the Supreme Court had declared unconstitutional an earlier law of 1916 prohibiting child labor. In 1941, however, in the case of U.S. v. Darby Lumber Co., the Supreme Court reversed its earlier ruling by upholding the child-labor provisions of the Fair Labor Standards Act.

Last Phase of the New Deal

Passage of the Fair Labor Standards Act was not the only last but also the only major reform of Roosevelt's second term. The New Deal lost momentum in the late 1930s for both economic and political reasons.

Recession, 1937 - 1938 [critics called it the "Roosevelt Recession"]

From 1933 to 1937 (Roosevelt's first term), the economy showed signs of gradually pulling out of its nosedive. Banks were stable, business earnings were moving up, and unemployment, though still bad at 15 percent, had declined from the 25 percent figure in 1933. In the winter of 1937, however, the economy once again had a backward slide and entered into a recessionary period.

Causes. Government policy was at least partly to blame. The new Social Security tax reduced consumer spending at the same time that Roosevelt was curtailing expenditures for relief and public works. In reducing spending for relief, the president hoped to balance the budget and reduce the national debt.

Keynesian economics. (see below) The writings of British economist John Maynard Keynes taught Roosevelt that he had made a mistake in attempting to balance the budget. According to Keynesian theory, deficit spending was acceptable because in difficult times the government needed to spend well above its tax revenues in order to initiate economic growth. Deficit spending would be like "priming the pump" to increase investment and create jobs. Roosevelt's economic advisers adopted this theory in 1938 with positive results. As federal spending on public works and relief went up, so too did employment and industrial production.

Weakened New Deal

Although the economy improved, there was no boom and problems remained. After the Court-packing fight of 1937, the people and Congress no longer automatically followed FDR and the 1938 elections brought a reduced Democratic majority in Congress. A coalition of Republicans and conservative Democrats [*this coalition dominates Congress and blocks further reform from 1938 - 1964 (LBJ)*} blocked further New Deal reform legislation. Also, beginning in 1938, fears about the aggressive acts of Nazi Germany diverted attention from domestic concerns toward foreign affairs.

"Keynesianism"

If slowdown in the economy, govt. should ...	**If economy is overheated, govt. should ...**
1. cut taxes (put $ in consumers' pockets)	1. raise taxes
2. increase spending to put money in consumers' pockets (jobs programs, etc.)	2. cut back on government spending (reduce $ pockets)
3. run a budget deficit	3. pay off the debt or run a surplus
RECESSION	**INFLATION**