Causes of the Great Depression
Targets
Roaring ’20s

• **Laissez-Faire →**
  – Wages 2x 1914 levels
  – Cheap, abundant energy → low manu. costs
  – National Market ↑ → Investment encouraged
  – Low taxes on rich
  – **Ford, Taylor** build factories, master mgmt. techniques
  – Consolidation of industry → monopolies
  – Belief that the market would always be good → buy stock on margin → stock prices soar (inflation)
  – ↓ IR to influence EUR mkts and get paid for WWI
Harding

- **Andrew Mellon** (Treasury) – Plan: ↓ spending, ↓ taxes on rich = “trickle down economics”
- Opposed Vets Bonus Bill → veto
- **Revenue Act** (1921) – tries to execute Mellon plan → falls short
- **Fordney-McCumber Act** (1922) – protectionism → stopped outflow of US capital, hurt foreign trade
- Supported “Yellow Dog” Contracts; injunctions against labor
- Loans to help farmers to relieve mortgage burden → failed → Low prices and low revenues
Courts

- **Bailey v. Drexel Furniture** (1922) – Child Labor law unconstitutional
- **Addams v. Children’s Hospital** (1923) – Minimum wage for women unconstitutional
Personal

- Not exactly a moral man
- **Teapot Dome Scandal** (1921) – transferred oil reserves in CA to WY → Sec. of Int. *Fall* sold them to private companies → caught, went to jail.
- *Murdered by his wife in Alaska?*
Silent Cal

• “Business of America is business.”
• Prosperity of ’20s → his l-f doctrine widely accepted
• Encouraged investment
  – Grow national market
  – Permissive government
  – Tax reductions
  – Restrictions on labor → surplus of labor

“I want the people of America to be able to work less for the government and more for themselves. I want them to have the rewards of their own industry. This is the chief meaning of freedom.”

“Don’t expect to build up the weak by pulling down the strong. calvin coolidge sayingsplus.com

“The government can supply no substitute for enterprise.”
- Calvin Coolidge
Boom!

- Corporate investment up (lower corp. tax rates)
- Buying on margin encouraged $\rightarrow$ inflation ($4B$ in “broker’s loans” by 1927)
- Speculators ruled market $\rightarrow$ riskier
- Fed $\rightarrow$ didn’t respond by raising IR as they should’ve
- **Revenue Act** (1926) – cut estate and income tax $\frac{1}{2}$
- **McNary-Haugen Bill** (1927-28) – buy from surpluses $\rightarrow$ vetoed because he thought US might be accused of **price fixing** abroad.
Not the Vacuum Guy

- **Agricultural Marketing Act** (1929) – Farm Board created ➔ make loans to co-ops, control surplus
- **Good Neighbor Policy** (1930) – refrain from LA intervention ➔ repudiated Roosevelt Corollary
- **Hawley-Smoot Tariff** (1930) – 40% tariff (highest)
- **Lausanne Conference** (1932) – UK/FRA agree to reduce GER reparations if US forgives debt ➔ Nope. ➔ default on loans
Tick...Tick...CRASH!

- June-Aug, 1929 – Fed ↑ IR → speculation goes on
- Consumer spending, industry, construction ↓, but stocks ↑
- 10/24 – Securities fall → Morgan & others bail out
- 10/29 – Black Tuesday
Causes

• Unbalanced income distribution
• Inflated profits for corps $\rightarrow$ reckless speculation
• Undisciplined banking system
• L-F gov didn’t regulate system
• World in debt $\rightarrow$ no int’l trade
Phase I: Depression Hard

- **1929-30** – Hoover urges Big Business to keep wages high → nope.
- Hawley-Smoot, Tax cuts for wealthy, no stimulus for desire to balance budget → kept inflation low, but...
- Investment ↓ 90%, 100K businesses & 4K banks FAIL.
Phase II: Depression Harder

- 1930-31 – Relief Discrimination @ local level
- Rugged Individualism!
- Financial panic in EUR made it WORSE → Hoover blames EUR for everything → moratorium → UK drops gold standard
Phase III: Depression w/ a Vengeance

• **1932** – Hoover wanted to stay on **gold standard**
• Federal intervention
  – Fed gives banks $ to loan
  – **Glass-Steagall Act** – Give gold to EUR to stop them from turning USD into gold → US hurt b/c they still needed that gold for bank loan program.
  – Reconstruction Finance Corp – Lend $ to banks and insurance cos. → more bank debt, dems question selection process for relief → bank bailout
Bonus Army Riot (1932)

• 15K WWI vets wanted 2\textsuperscript{nd} half of pension payment $\rightarrow$ congress refused

• 2K stayed in DC to protest $\rightarrow$ Hoover sends MacArthur, Patton, Eisenhower lead cavalry and infantry to remove protestors $\rightarrow$ 2 police wounded, 2 vets killed.