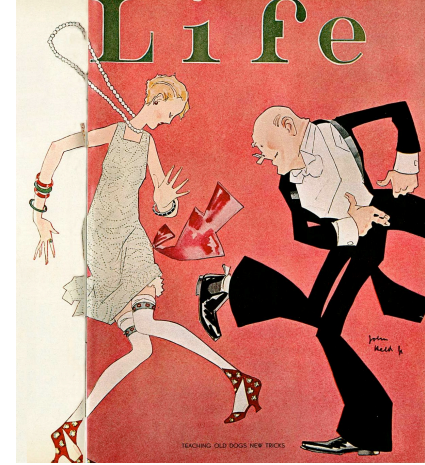




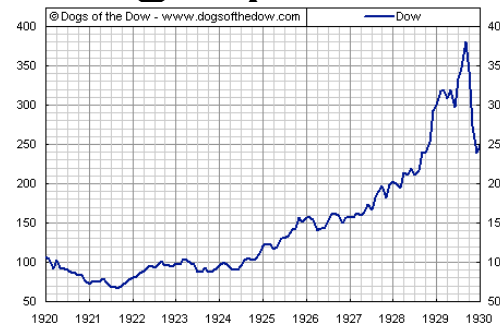
© Richard Heeks / Barcroft Media

# Causes of the Great Depression

# Roaring '20s

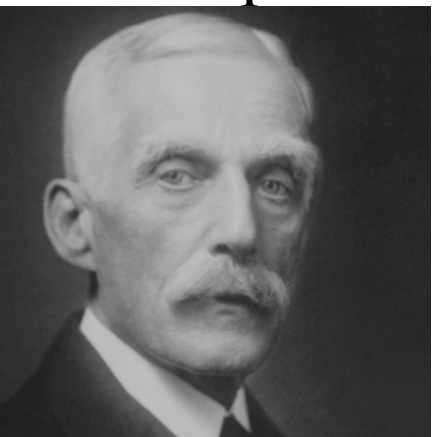


- Laissez-Faire →
  - Wages 2x 1914 levels
  - Cheap, abundant energy → low manu. costs
  - National Market ↑ → Investment encouraged
  - Low taxes on rich
  - **Ford, Taylor** build factories, master mgmt. techniques
  - Consolidation of industry → monopolies
  - Belief that the market would always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

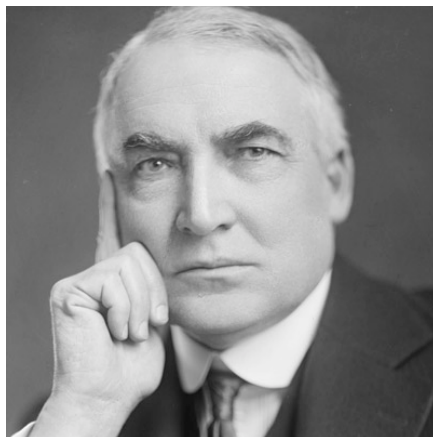


# Harding

- 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



Mellon

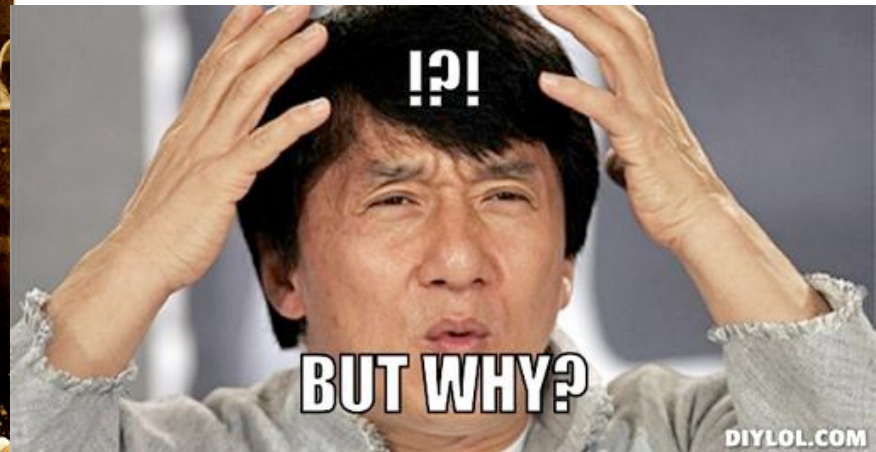


Harding Thinking  
...But about what?



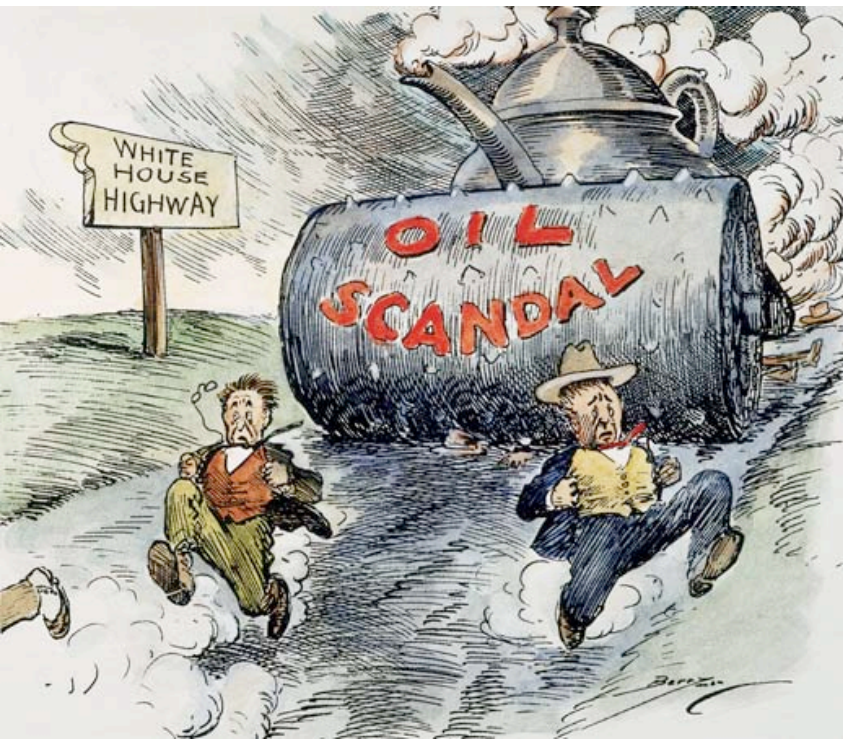
# Courts

- 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?*

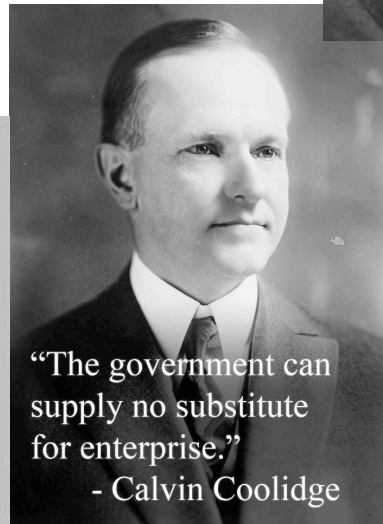
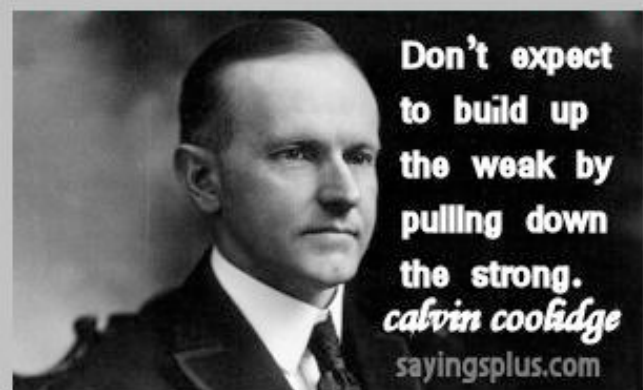


# Silent Cal

- “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

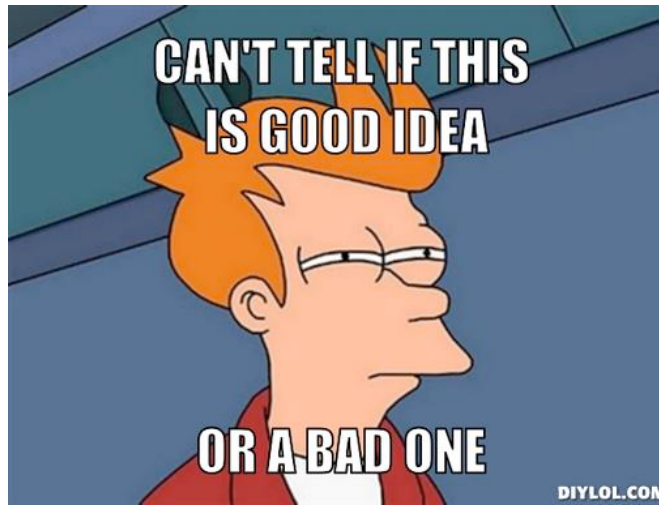


"I want the people of America to be able to **work less for the government and more for themselves.** I want them to have the rewards of their own industry. **This is the chief meaning of freedom.**"



# Boom!

- Corporate investment up (lower corp. tax rates)
- Buying on margin encouraged → inflation (\$4B in “broker’s loans” by 1927)
- Speculators ruled market → riskier
- **Fed** → didn’t respond by raising IR as they should’ve
- **Revenue Act** (1926) – cut estate and income tax ½
- **McNary-Haugen Bill** (1927-28) – buy from surpluses → 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**

## BLACK TUESDAY

NEW YORK, TUESDAY, OCTOBER 29, 1929

### THE STOCK MARKET CRASH OF 1929

BY BARBARA SILBERDICK FEINBERG

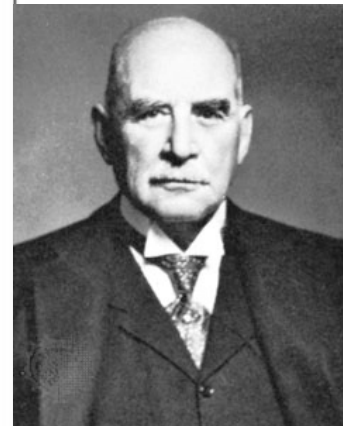
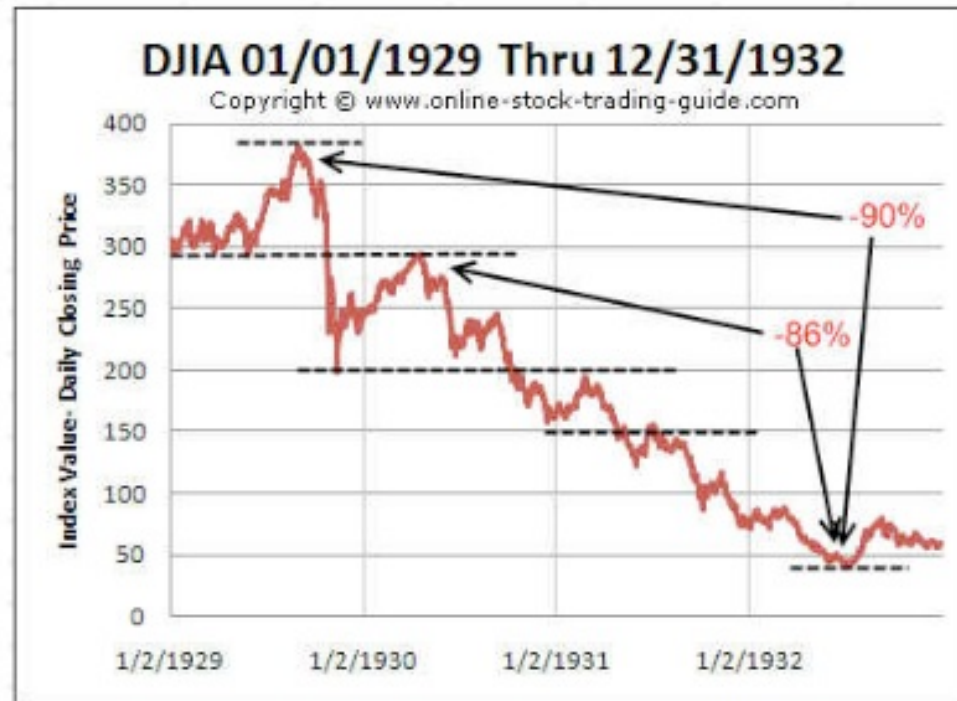


Crowds Gathered On Wall Street As The Market Went Into Historical Decline

number of shares were traded. Some stocks were almost given away. Millions of shares traded hands.

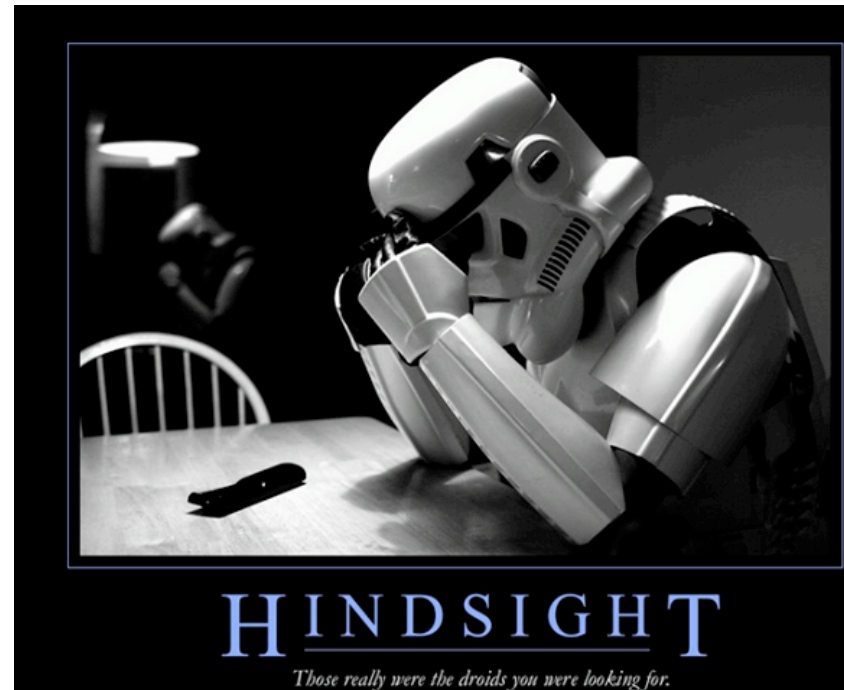
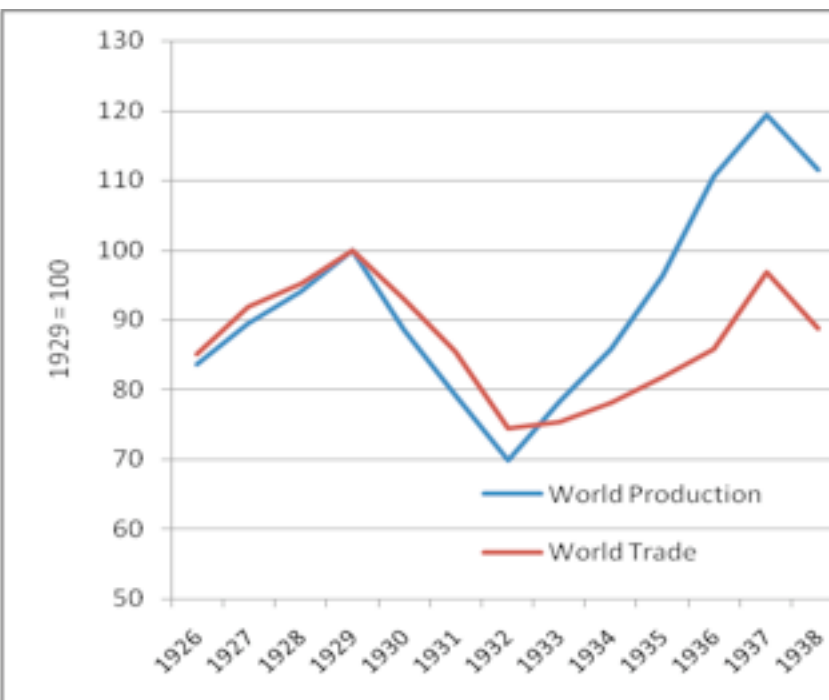
Brokers on the floor of the Exchange have never seen a day like this. The shock on Wall Street spread to other exchanges and markets. It

was a country-wide collapse of security values in which losses were the most disastrous and far reaching in the history of the Stock Exchange. There was more panic on the Chicago commodities exchange. Rumors spread from one end of the United



# Causes

- Unbalanced income distribution
- Inflated profits for corps → reckless speculation
- Undisciplined banking system
- L-F gov didn't regulate system
- World in debt → no int'l trade



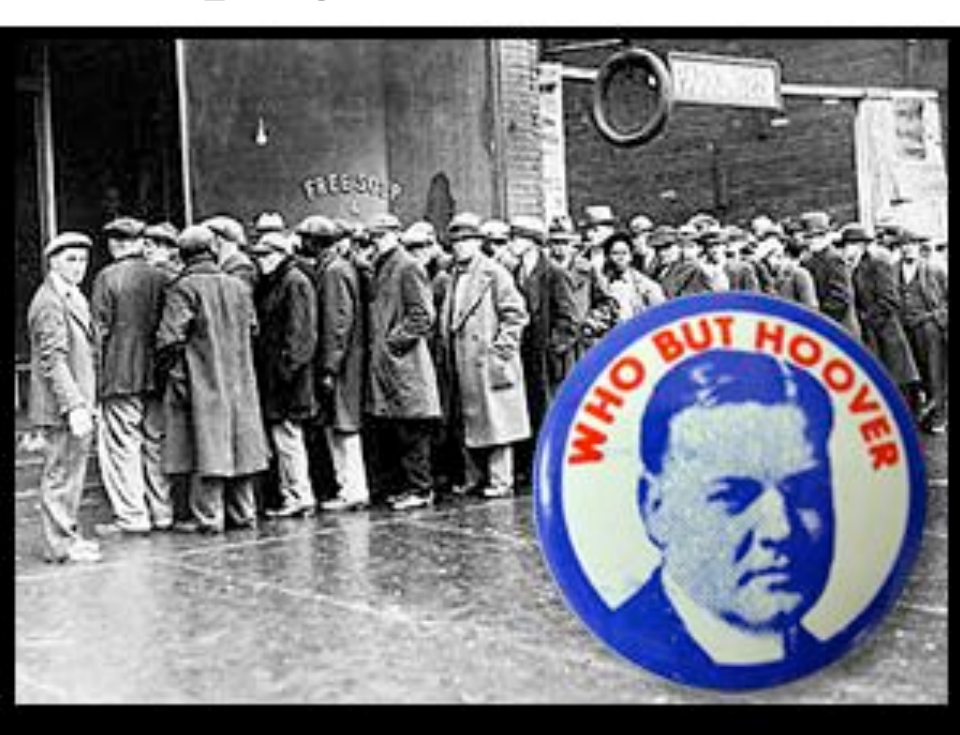
# Phase I: Depression Hard

- 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<sup>nd</sup> half of pension payment → congress refused
- 2K stayed in DC to protest → Hoover sends MacArthur, Patton, Eisenhower lead cavalry and infantry to remove protestors → 2 police wounded, 2 vets killed.

