



The Great Depression

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The Great Depression, one of the major disasters of the modern era, is easy to describe: it was the worst economic catastrophe in history. It was harrowing¹ to experience: people were starving, even in our land of plenty. It triggered political upheavals in Europe that had devastating consequences. And it was so persistent that it only yielded to another global tragedy, the Second World War.

But in the United States, it was not without a silver lining:² it inspired President Franklin Delano Roosevelt to launch economic and social reforms that still benefit the living standards and quality of life for many Americans today.

The Great Depression started in 1929 with an unexceptional development: American shoppers spent less than usual on consumer goods, which triggered a familiar phenomenon – a recession.³ But what happened next was out of the ordinary: although production, consumption, and companies' profits were sinking, investors kept buying more stock, and pushing their prices to unrealistic heights.

On October 24, a day remembered as “Black Thursday,” enough investors decided to cash in on the boom to start a massive sell-off that pricked the stock market bubble.⁴ Within a week, prices on Wall Street hit new lows and panicky investors dumped 29 million shares, giving the American economy a shock equivalent to the fire sale⁵ of thousands of businesses and factories.^{Q1}

After the stock market crash came a banking crisis. With unemployment rising and investment plunging, thousands of investors lost confidence in their banks and in the fall of 1930 began withdrawing their deposits. That forced banks to liquidate loans, and within two years, thousands of banks went out of business.

As factories closed doors, one in four Americans lost their jobs. With no bank loans to tie them over, farmers left their crops in the fields while in towns, people starved. Bread lines, soup kitchens, and homeless college graduates selling apples in the streets became part of the American scene.^{Q2}

As housing construction stopped and factories closed their doors, U.S. production of goods and services – the country's gross domestic product, or GDP – was cut in half, and foreign trade shrank 70 percent. In short order, the global impact of America's economic downturn bore out the complaint of millions of Europeans that “When America sneezes, we catch pneumonia.”



THE GLOBAL IMPACT

The pain caused by the Great Depression was felt as far as Australia, where in 1932 unemployment reached a record high of 29 percent, and civil unrest became common. In France, the depression triggered street riots and strained the nation's social fabric by strengthening both socialists and their far-right opponents.

In Great Britain, industrial production collapsed, ship building dropped 90 percent and in some towns unemployment reached 70 percent. In 1934, a "National Hunger March" of jobless workers turned into several days of street fighting in London in which 75 people were seriously injured.

Worst of all were the effects in Germany. Unable to get loans from American banks, the Weimar republic in 1932 cancelled 90 percent of its reparation⁶ payments to the victors of WWI. The same year, the rise of unemployment to nearly 30 percent destroyed all confidence in the centrist party and divided most of the electorate between the extreme Right and Left.⁷ Although Adolf Hitler lost the elections to the incumbent⁸ president von Hindenburg, the Nazis and the Communists won the majority in Germany's parliament.^{Q3}

In the U.S., the gathering clouds of global upheaval failed to change the assurances from President Herbert Hoover that the crisis, if left alone, would run its course just like had the recessions in the past. A Republican and businessman, Hoover believed that government should not directly intervene in the economy, and that it did not have the responsibility for creating jobs or providing economic relief for its citizens. He eventually did try stem⁹ the economic slide with two laws to spur new home construction and public works programs, but they were too little and too late.

The runs on banks continued and by the fall of 1932 businesses and families defaulted on record numbers of loans, more than 5,000 banks had failed, and the U.S. Treasury didn't have enough cash to pay all government workers. Hundreds of thousands of Americans had lost their homes and lived in tents and shacks of shantytowns¹⁰ derisively¹¹ called "Hoovervilles."

It was a classic setting for a political upheaval, and it came – just like in Europe – in 1932. But unlike in Europe, American voters in the November presidential elections voted for democracy. The Communists, the only extremists in the race, won a paltry¹² ¼ of 1 percent of the vote. Norman Thomas, a democratic socialist, won over 2 percent. Hoover's Republicans came in second with less than 40 percent of the vote. And the winner, in a landslide, was Democrat Franklin Delano Roosevelt, with over 57 percent of the electorate.^{Q4}



FDR'S REFORMS

Roosevelt – FDR, as he became known – was one of the towering statesmen and political leaders of the 20th Century. Born in New York in a wealthy patrician¹³ family, he went to Harvard and rose rapidly in Democratic politics until the age of 29, when he came down with polio¹⁴ that left him paralyzed from the waist down.

He refused to let the setback crush him. With indomitable¹⁵ optimism and willpower, he fought the disease, returned to politics, and in 1929 was elected the governor of the State of New York. In March, 1933, when he was sworn in as the 32nd President of the United States, he was ready to lead. Bareheaded and unsmiling, he focused his inaugural address on the parlous situation of the country, and pledged to restore it to health:

“This great Nation will endure, as it has endured, will revive and will prosper,” FDR assured the crowd below the Capitol, adding, “So, first of all, let me assert my firm belief that the only thing we have to fear is fear itself....We must act and act quickly.”

And that's what he did throughout his 12 years in office. As the leader of the Democratic Party, he built a coalition of labor unions, big city machines, white ethnics,¹⁶ African Americans and rural white Southerners, and used this powerful electoral force to push through Congress a far-reaching program called the New Deal. It launched bold measures to promote economic reform and recovery, and enacted unprecedented laws to protect ordinary citizens.

For example, The Social Security Act created a safety net for victims of old age, poverty and unemployment. The Federal Deposit Insurance protected savers from losing their money in a bank crash. The Wagner Act guaranteed basic rights of workers to organize into trade unions and bargain for better terms and conditions at work.

And FDR took long strides to bring Americans out of the Hooverilles and put them back to work. The Work Progress Administration (WPA), the largest and most ambitious New Deal agency, gave jobs to millions of unskilled men. They built massive public projects, including the gigantic Tennessee Valley Authority (TVA), and thousands of public buildings and roads. Almost every American community got a new park, bridge or school constructed by the WPA.

Another stellar success was the Civilian Conservation Corps that provided three million young men with shelter, clothing, food and a wage of \$30 (\$25 of which they had to send to their parents) for working in

national parks and on other conservation projects. An imaginative Federal Project Number One employed hundreds of jobless musicians, artists, writers, actors and directors in large arts, drama, media, and literacy projects.Q5

Roosevelt's support for labor unions and regulations for business and high finance earned him the enmity¹⁷ of many in the moneyed circles, but in *FDR: An Intimate History*, biographer Nathan Miller described the President as unaffected by these critics.

"Living comfortably on inherited wealth, [Roosevelt] cared little about money for its own sake," Miller wrote. "He never believed that the business ethic should be dominant in American society, or that any restriction on business was a threat to the American way of life..."

But some of the New Deal policies were rejected by the conservative U.S. Supreme Court, and Roosevelt, trying to remove this block to his legislative reforms, made the biggest political error of his career. In 1937, he proposed to increase the size of the Court by adding up to six new justices for every Supreme Court member older than 70 and a half years.

The proposal was not illegitimate – the Constitution does not define the size of the Supreme Court – but it triggered a nationwide storm of protests against what was widely regarded as an excessive power grab. It was defeated in Congress, but Roosevelt did not lose his popularity. In 1940, he was reelected for a third term, and a fourth in 1944, acts so unprecedented that Congress and the states adopted an Amendment in 1947 that "No person shall be elected to the office of the President more than twice." Roosevelt continued to guide the country until 1945, when he died in office.

The start of World War II in 1939 rebooted the global economy, escalated demand for industrial goods, and ended the need for many of FDR's emergency programs. But his key innovations are still important part of our lives. The Social Security and other New Deal laws, the TVA, and thousands of other public works still serve us. They continue fulfill FDR's assurance that our nation "will revive and will prosper."

