

# The Causes of the Great Depression

## An Online Professional Development Seminar

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**AMERICA *in* CLASS<sup>®</sup>**

*from the* National Humanities Center

## GOAL

The goal of this seminar is to develop an historical explanation for both the onset, and the severity, of the Great Depression in the United States. Among the many competing explanations (both contemporary and scholarly), we focus on the collapse of demand in the interwar economy and the challenge of restoring that demand in an era of limited federal powers.

## FROM THE FORUM

### Challenges, Issues, Questions

- What, if any, government action led to the Great Depression?
- What private action, both on the part of individuals and business, led to the Depression? What is the relationship, if any, between the consumerism of the 1920s and the Great depression? How much blame should be placed on consumers themselves in terms of installment buying, credit, and stock market speculation? To what extent should “buying on margin” and overconsumption be factored into the causation of the GD?
- Were there any warnings to the Great Depression? Was there any warning to the decline of the business cycle?
- Why was the Great Depression so severe?

## FROM THE FORUM Challenges, Issues, Questions

- In what ways was the Great Depression similar to and different from earlier and later depressions and recessions?
- Why did Hoover feel that his trickle down economic philosophy would work?
- Did the tightening of credit in response to the economic collapse worsen the Depression?
- Did FDR's policies work, or did World War II end the Great Depression?

## FROM THE FORUM

### Challenges, Issues, Questions

- How do FDR's New Deal policies compare with government policies designed to boost the current economy?
- To what degree does Hoover's austerity response to the Great Depression shed light on current EU austerity programs? What lessons from that time in terms of austerity vs. stimulus are translatable to the EU situation? What material differences exist that might prevent us from making direct connections?
- Compare the current problems with depressions of European nations and the troubles of the US prior to the GD.



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*Mapping Decline: St. Louis and  
the Fate of the American City*  
(2008)

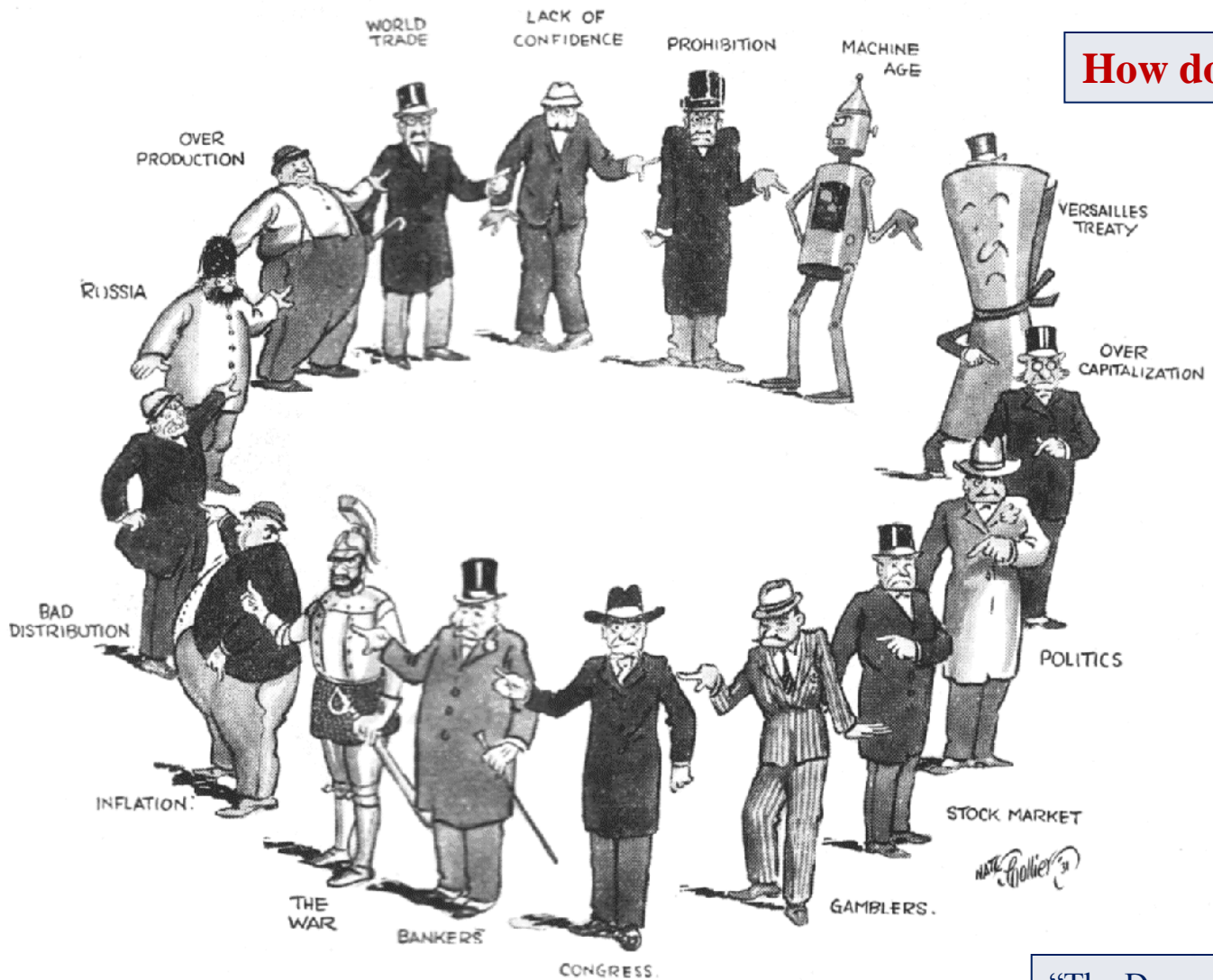
*Dead on Arrival: The Politics of Health  
in Twentieth Century America*  
(2003)

*New Deals: Business, Labor and  
Politics, 1920-1935*  
(1994)

# “The Depression is all HIS Fault,”

by Nate Collier

How do you read this cartoon?



“The depression is all HIS fault!”

“The Depression is His Fault.” Nate Collier.  
*Life*, March 1932, p. 60

Perhaps the best way to understand what caused the great Depression is to rephrase the question: “What made the Great Depression “great”? This shifts our attention away from the chain of events leading to the market crash in 1929, and to the larger weaknesses in the interwar economy which not only brought on the depression, but made recovery unusually difficult.



# The Great Depression as a Crisis of Demand

**Background Weaknesses:** Despite impressive growth in the “roaring” 1920s, the national economy was fragile as the decade came to a close. Slow wage growth meant that working Americans did not enjoy the fruits of prosperity—or had to borrow in order to do so. And the absence of any meaningful international cooperation on trade meant that foreign outlets for American goods could not be counted on.

**The Crisis of Confidence:** These background weaknesses were exposed by the chain of events surrounding the stock market crash: Consumers and firms responded to the crash by putting off purchases; widespread bank failures strangled access to credit for those still willing to spend; and early federal responses (tighter money, higher tariffs) made everything worse.

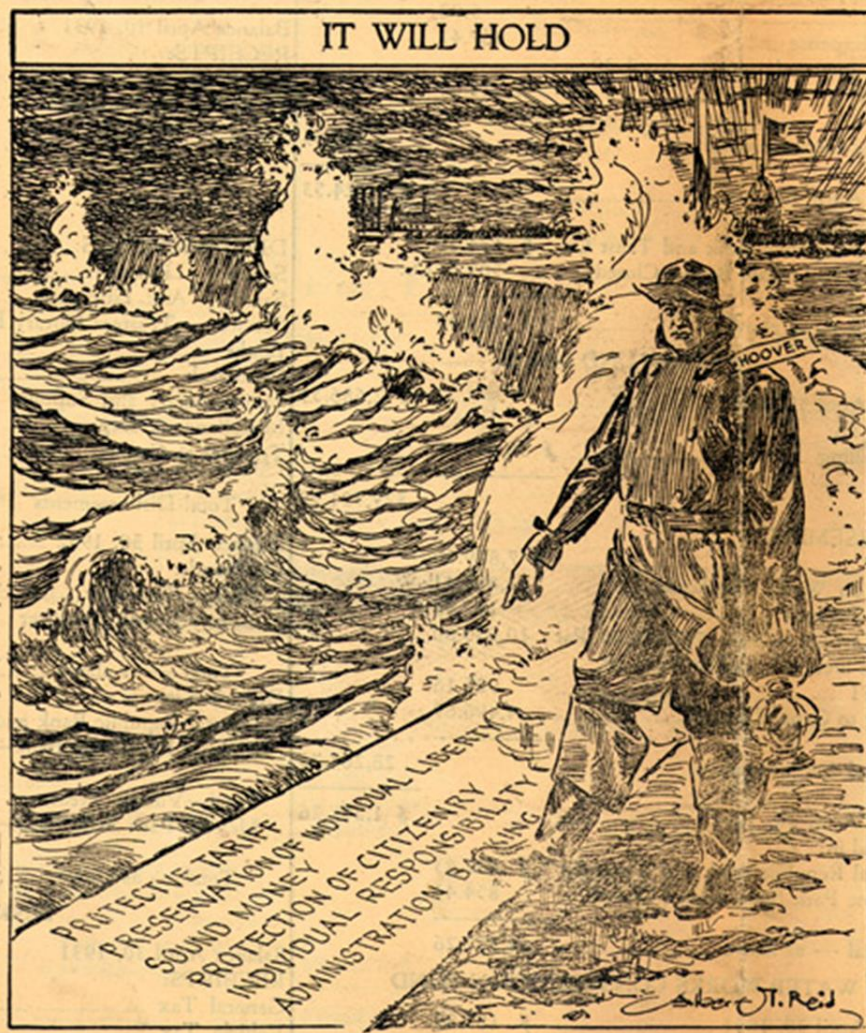
**The Political Response:** At the core of the New Deal (1933-1940) lay the conviction that restoring purchasing power was both the key to recovery, and the best assurance against another downturn of this magnitude. This led to policies (labor law, minimum wage, social security) that built a “floor” of demand under the economy.

“Economic depression cannot be cured by legislative action or executive pronouncement. Economic wounds must be healed by the action of the cells of the economic body—the producers and consumers themselves. Recovery can be expedited and its effects mitigated by cooperative action. That cooperation requires that every individual should sustain faith and courage; that each should maintain his self-reliance; that each and every one should search for methods of improving his business or service; that the vast majority whose income is unimpaired should not hoard out of fear but should pursue their normal living and recreations; that each should seek to assist his neighbors who may be less fortunate; that each industry should assist its own employees; that each community and each State should assume its full responsibilities for organization of employment and relief of distress with that sturdiness and independence which built a great Nation.”

### **Discussion Question**

- How does President Hoover, speaking a few months after the stock market crash, vie the prospects for recovery—and the role of the federal government in bringing that about?

# Hoover Holding the Line (1930-1)



“It Will Hold,” Abingdon Kodak, Sept. 9, 1932

[Hoover Online Digital Archive](#)



“Well Done!” *New York Post*, September 15, 1932

# Henry Tynan, “Steady Pay” (1932)

“We are told that such cycles have always been, with booms and depressions alternating—and that they therefore always will be. And that we are not to become either excited or despairful. There will be casualties—many will go hungry—but these are merely the normal incidents of every recorded depression. Wait. Never fear. The bottommost point is always certain to be reached in due course, after which those who have survived will begin to work their way upward once more. And some day all will be well again—until the next cyclical period for idleness and suffering shall arrive. A charming doctrine of periodic damnation—for all but those most securely entrenched. A doctrine, incidentally, that is most solemnly affirmed by the well-entrenched, who are among our leaders. We must credit them with good minds, good faith, good intent; and they base their belief upon the record of the past. But when God gave out His great gifts of hope and imagination He seems to have passed them by.”

## Discussion Question

- How does Tynan’s proposal (which rests on government policies securing “steady pay”) challenge conventional economic thinking?

# Appeals by the President's Organization on Unemployment Relief, 1931-2



Of course WE CAN DO IT!

- We dug the Panama Canal, didn't we? And they said we couldn't do that.
- We put an army in France four months after we entered the World War, didn't we? And surprised the world.
- Now we've got a tough one to crack right here in our own back yard.

Men are out of work. Our men. Our neighbors. Our citizens. Honest, hard-working folk.

They want jobs. They're eager to work. But there aren't jobs enough to go 'round. Somebody's got to tide them over.

Who's going to do it? The people who dug that ditch. The people who went to France, or bought Liberty Bonds, or went without sugar—Mr. and Mrs. John K. American.

That means you—and you—and Y O U!—every one of us who is lucky enough to have a job.

We're going to share our luck with the folks out of work, aren't we? Remember—there's no National fund they can turn to for relief. It's up to us! And we've got to dig deeper than we did last winter.

But if we all dig deep enough we can keep a roof over every head, food in every pantry, fuel on every fire, and warm

clothing on every needy man, woman and child in America.

That will beat Old Man Depression and lead the way to better days. Can we do it? Of course we can do it. Give . . . and give generously.

WHERE TO GIVE: There is no National Agency through which you may contribute. The way for you to give is through your local welfare and relief organizations, through your Community Chest or through your emergency unemployment committee if you have one.

THE PRESIDENT'S ORGANIZATION ON UNEMPLOYMENT RELIEF

Walter S. Dufford Director  
(WALTER S. DUFFORD)

COMMITTEE ON MOBILIZATION OF RELIEF RESOURCES

Charles D. Young Chairman  
(CHARLES D. YOUNG)

• The President's Organization on Unemployment Relief is non-political, and non-sectarian. Its purpose is to aid local welfare and relief agencies everywhere to provide for local needs. All facilities for the nation-wide program, including this advertisement, have been furnished to the Committee without cost.

When You  
BUY an AUTOMOBILE  
You GIVE  
3 Months' Work  
to Someone



Which  
Allows  
Him to  
BUY

OTHER PRODUCTS

<http://www.unz.org/Pub/LiteraryDigest-1931nov21-00044>

## Of course WE CAN DO IT!

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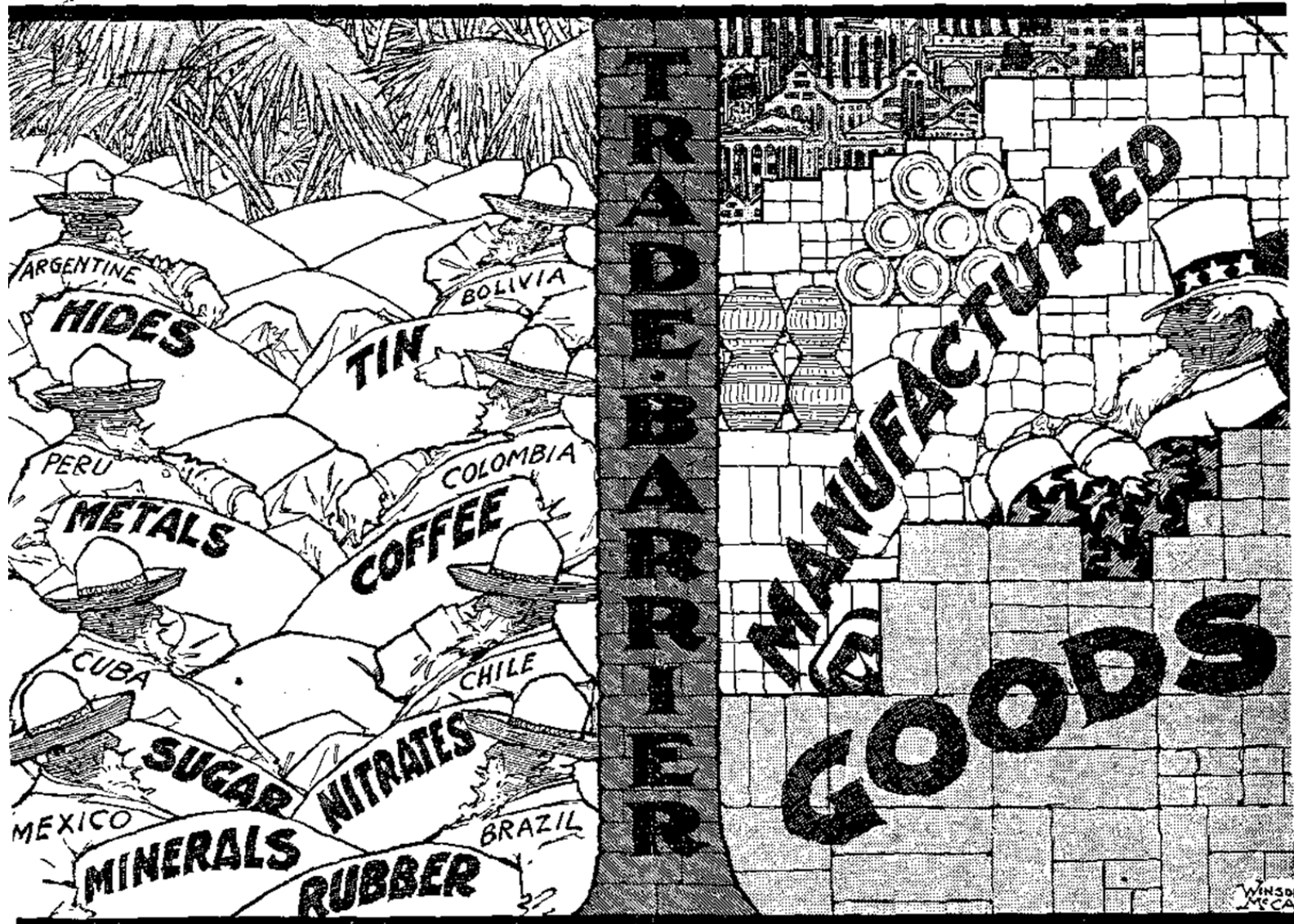
## “Mass Production and the Tariff,” Edward Filene, 1929

“The United States has a greater domestic market than any other nation—a population of 120,000,000 consumers who are more prosperous than any people has been in the history of the world. Yet this great market cannot absorb all the goods we are able to produce . . . The surpluses created by operating our plants at capacity must be sold in foreign markets. If they are not we have a period of super-competition in the domestic market which destroys profits, reduces wages, and creates widespread unemployment with grave social and political evils as a consequence. Europe is experiencing these evils today. We will experience them tomorrow unless the world is organized for efficient production and an orderly trade.”

### Discussion Questions

- How does Filene, a prominent retailer writing in early 1929, view the prospects for the American economy?
- What strengths and weaknesses does he see?

“Trade Barrier,” Winsor McCay  
in the *New York American*, ca. 1930.





# “Tariff Barriers and Business Depression,”

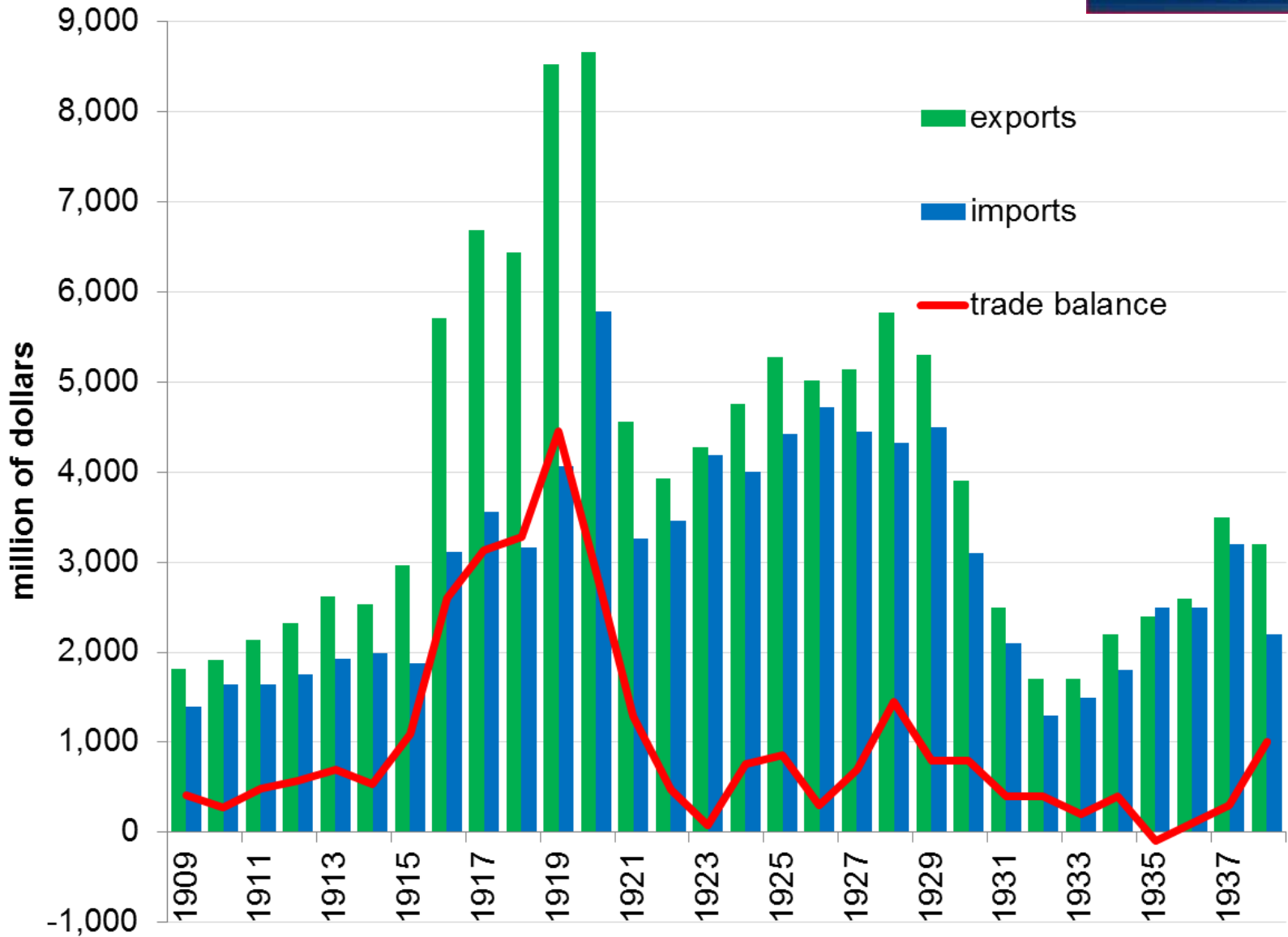
John Fahey, 1931

“It is unnecessary to go into any detail illustrative of the losses which we have incurred as a result of the tariff changes which have taken place. It is said in partial apology for the policy which we have followed that after all during this world-wide depression our losses have been no more proportionately than those of other countries. But can we find any great encouragement in that fact? Is it a real consolation to know that if we have lost, others have likewise lost in equal proportion? What are we going to do about it all? Well, it is not so difficult to get tariffs up under some circumstances; but it is much more difficult to get them down, and if we agree that some world-wide policy of gradual tariff reductions is not only desirable but necessary, then certainly we must at the same time realize that it is far from being an easily achieved objective. Yet if business is soon to resume its healthy, upward development, we must attack this problem, and a real beginning must be made toward the gradual reduction of tariffs. . . . As the nation which under normal circumstances has the largest export business of any in the world, we bear a peculiar responsibility to contribute at least our share, and indeed a little more than our share, in the leadership of a general movement for a better international adjustment of this very annoying and disturbing tariff problem.”

## Discussion Question

- Why, in Fahey’s view, is the lowering of tariffs (and the pursuit of free trade) of such particular importance to the United States?

# Exports and Imports, 1909-1939

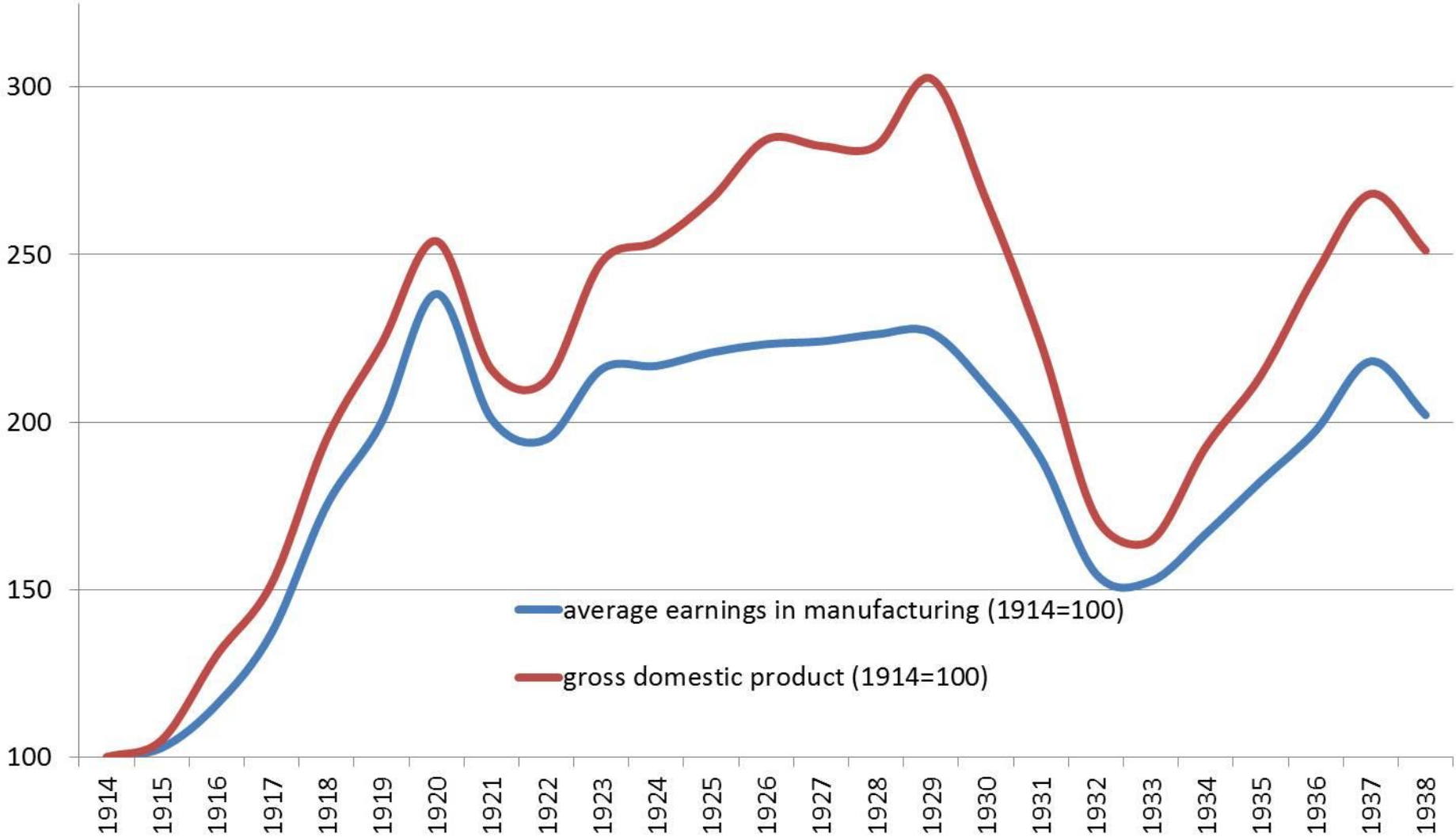


“The profits of manufacturers have risen sky high. Each workingman has been producing much more. The value of goods put out by American factories has greatly increased. But the workingmen are receiving in wages a much, smaller share of that value. I dismiss, for the moment, the unethical procedure whereby labor—and that means the man at the lathe as well as his white-collared colleague at the desk—is paid less for creating more. The chief point is this: the total value of products is greater; the total national wage bill is smaller. Then how can the wage- and salary-earners of the country buy back what they produce? They cannot. . . . the concentration of America’s wealth and America’s national income in fewer and fewer hands has gone on apace for many years, so that despite the wide diffusion of stock ownership, profits were remaining with a decreasing percentage of the population which was too small to consume those profits. Rockefeller, Ford, and Schwab and their brother multimillionaires cannot eat twenty beefsteaks a day, or ride in fifty Packards, or inhabit seventy villas each. There is a natural limit to individual consumption. In other words, the people who wanted to consume all did not have the means, and the people who had the means could not consume all.”

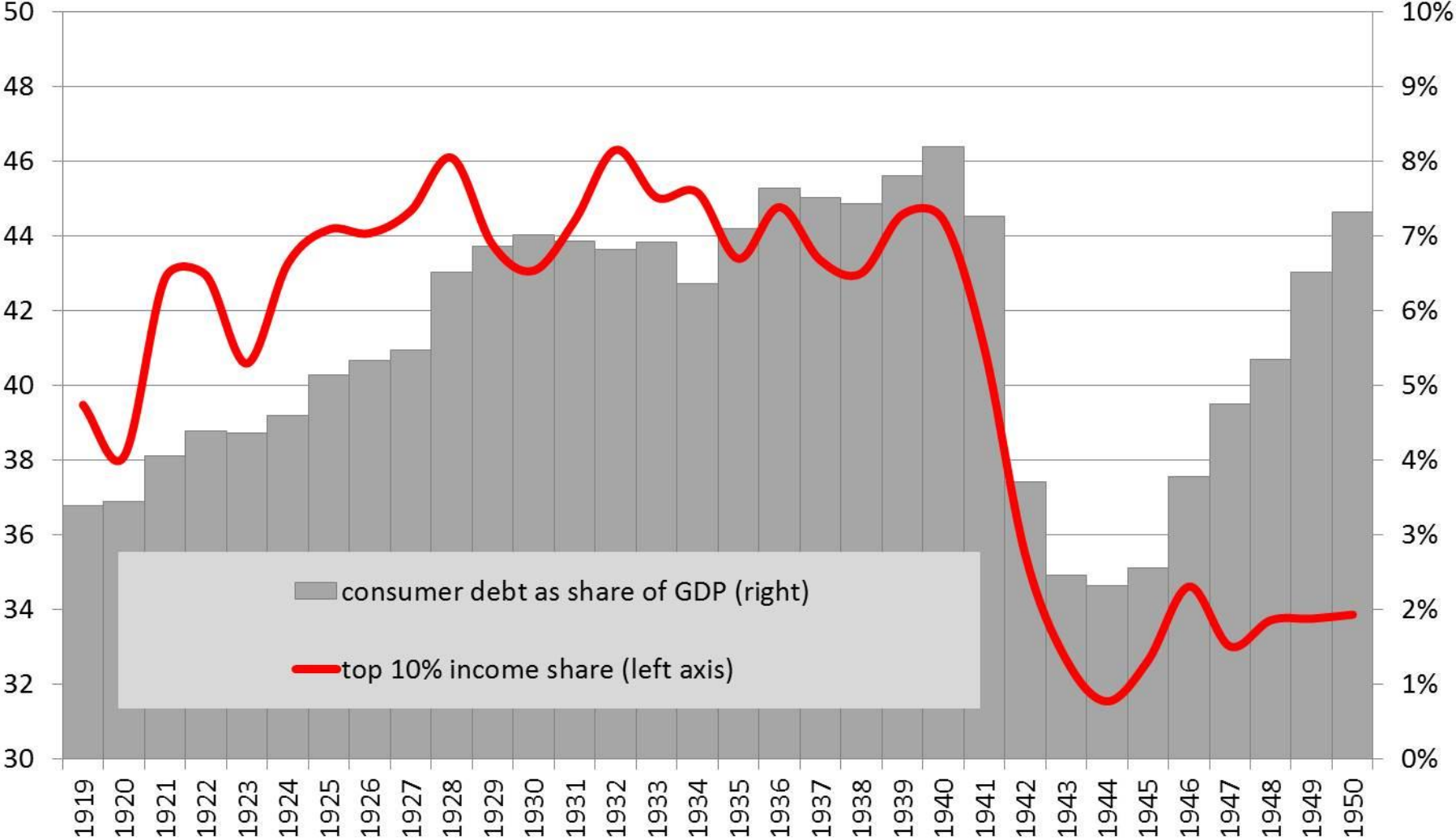
### Discussion Questions

- What, in Fischer’s view, is the relationship between economic equality and economic prosperity?
- How does this contribute to his understanding of the Great Depression—and prospective political solutions?

# The Wages-Productivity Gap, 1914-1939



# Consumer Debt and Top 10% Income Share, 1919-1950



# From “Retailers’ Economic Security Plan” (1934)

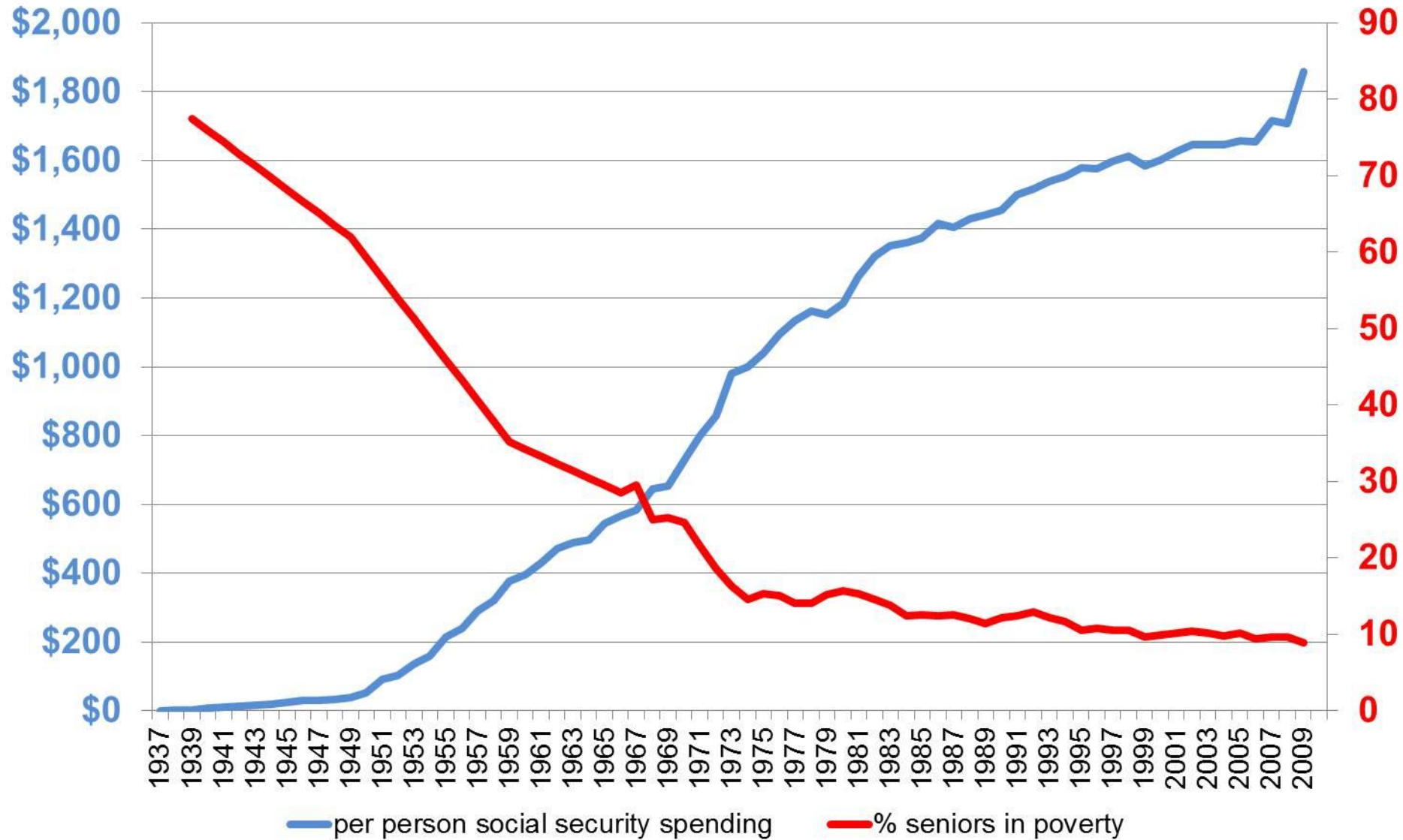
The United States has sufficient resources, productive capacity, human energy, and skill, to provide at least a fair minimum standard of life continuously for all the people. The relations of the United States with the rest of the world are tranquil. It is not torn by internal political or class strife. There is no natural basis for the present disorganized state of economic affairs. All conditions exist for renewed prosperity and progress.

All production and consequent employment is in response to current or expected consumer demand. Effective demand can occur only when the consumer has money or credit. But only through production and distribution can the money or credit which is necessary to create consumer demand become available. Distortion in these relations causes the vicious circle of expansion and depression. . . . Our objective should be to give the worker work, and through adequate reserves and insurance, protection against the hazards of unemployment, old age, sickness, disability and dependency. Unfortunately, the building up of reserves for each of these purposes reduces purchasing power, particularly in its initial stages. This, however, should not cause us to delay the development of programs, nor should it prevent us from taking the initial steps, and progressively increasing a general program of economic security.

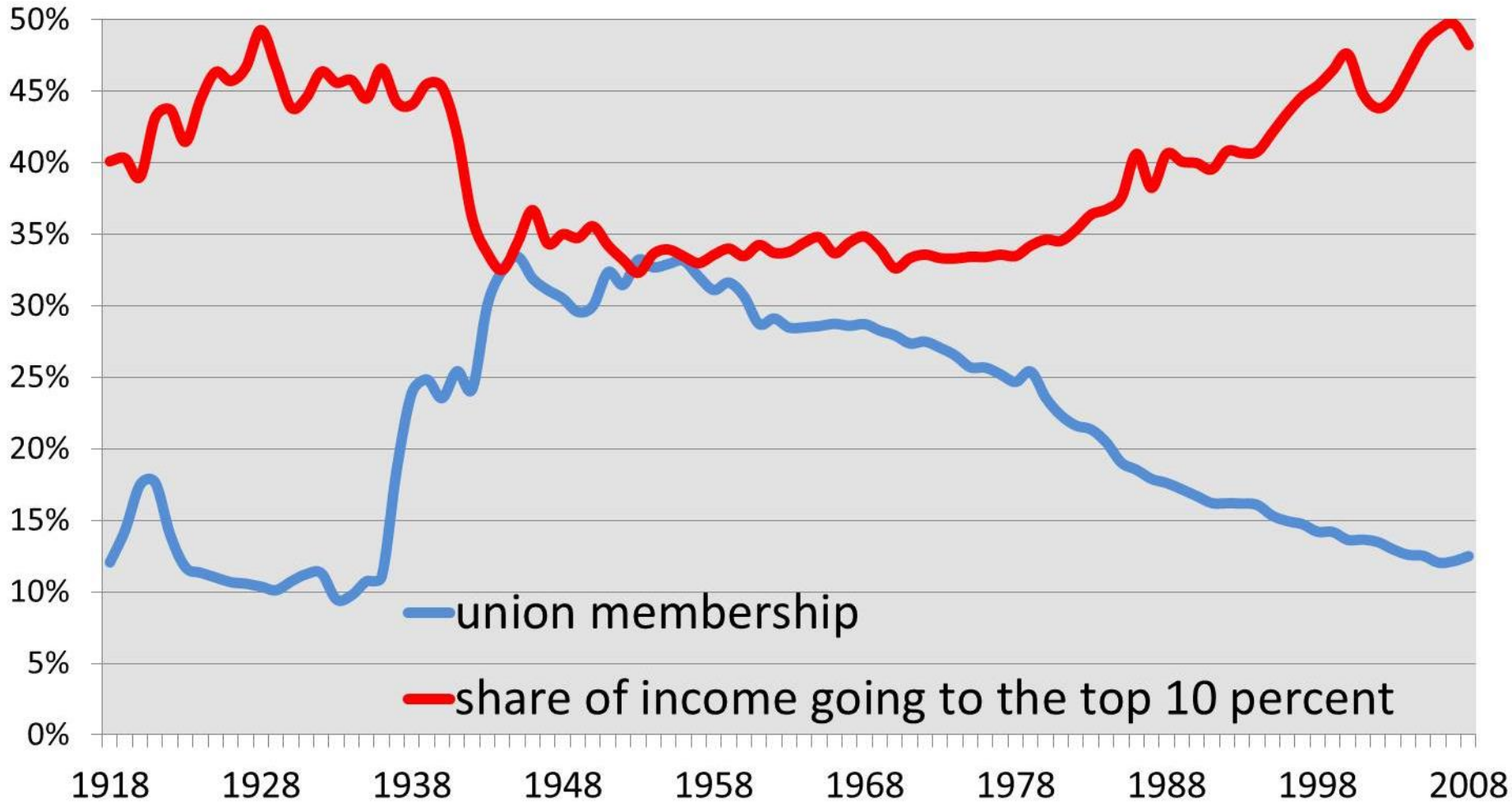
## Discussion Question

- In the view of the retailers, how might social security programs bring about recovery from the Great Depression, and forestall future depressions?

# Social Security and Senior Poverty, 1937-2010



# Union Membership and Inequality, 1917-2010

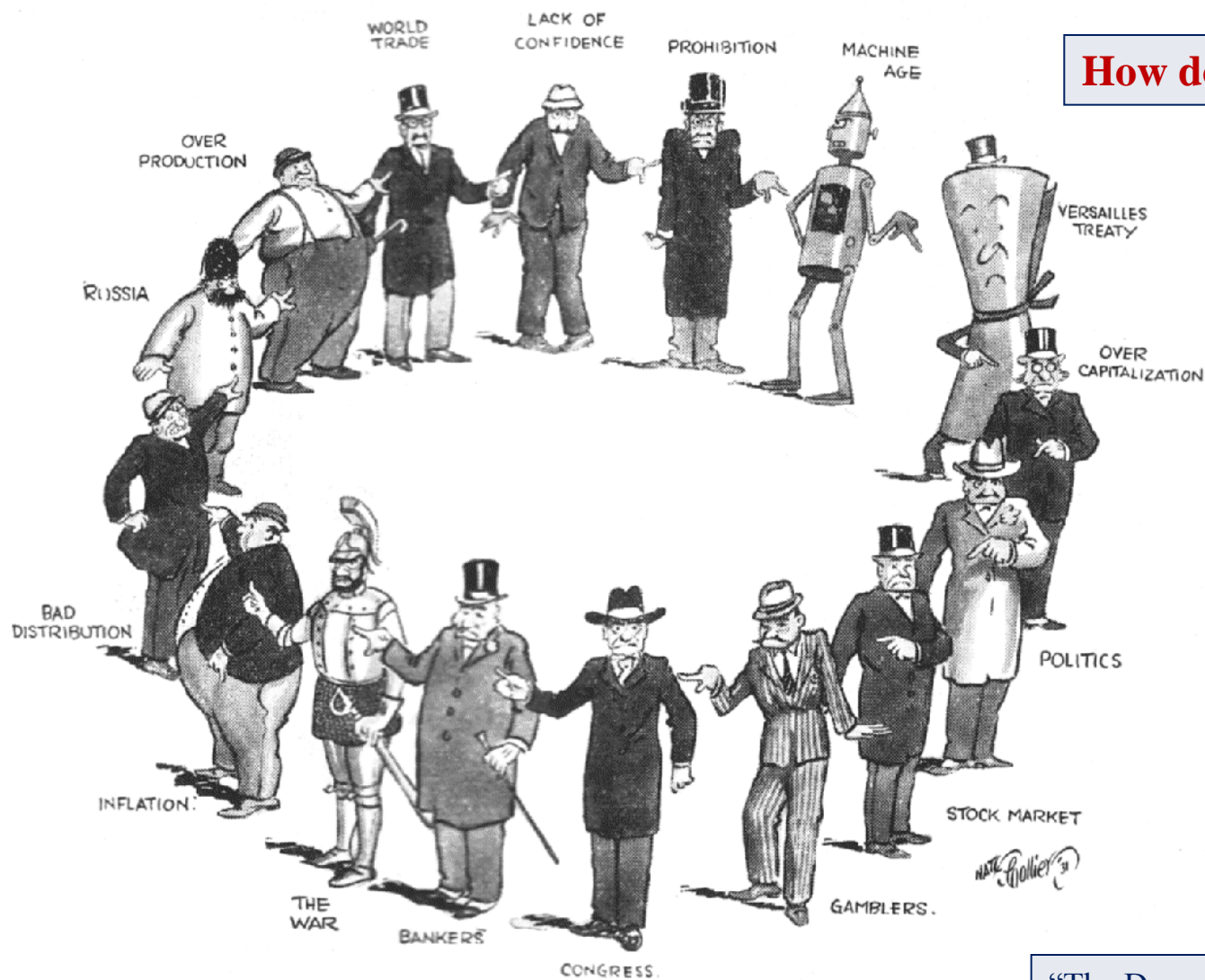




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Final slide.

Thank you.