Background to the Great Depression and the New Deal

You learned about how the 1920s witnessed the rampages of a bull market. Stock prices rose at almost twice the rate of industrial production. Contributing to the problem that the paper value of stock exceeded the real value were lax financial regulations that allowed investors to purchase stocks by making a small down payment (as little as 10 percent) and borrowing the rest from a broker. Corporations often reinvested their excess capital, not in their workers’ wages, but in loans to stockbrokers. Most of us have heard about the Wall Street Crash of 1929. Only 4 million out of 120 million Americans owned any stocks at all, but when the market price of stocks lost $30 billion in the fall of 1929, the Crash revealed the underlying problems in the American economy that plunged the country into the worst depression in its history.

Listen to this video (2:40) in which historian David Kennedy discusses the causes of the Great Depression.

Listen again to historian David Kennedy as he discusses unemployment during the Great Depression (1:42).

The Great Depression destroyed Americans’ confidence as unemployment rates reached 25 percent by 1932 with higher rates in many regions. President Herbert Hoover responded, at first, as had presidents before him—he called for volunteer associations such as churches to help the needy and he waited for the natural cycle of the American economy to move from bust to boom as it had so many times in the past. Unfortunately this depression showed no signs of ending. From 1929 to 1932, industrial production fell by 50 percent. In 1931 alone, three thousand banks failed and people lost deposits of $1.7 billion.

Steeped in the rhetoric of laissez-faire capitalism, Hoover hesitated to involve the federal government in attempts to improve the economy. He waited, keeping faith in the reliance of the capitalist system and a philosophy that government should involve itself as little as possible in the American economy. Finally, in early 1932, he established the Reconstruction Finance Corporation (RFC) to make loans to businesses and railroads in danger of defaulting. The RFC was the biggest peacetime intervention in the economy by the federal government thus far in American history and created the largest peacetime deficit. Despite his willingness to intervene on behalf of distressed businesses, Hoover refused to authorize direct relief to people. For example, in 1930 Hoover refused to give $25 million to help feed Arkansas farmers, but approved $45 million to feed those farmers’ livestock. Elected by a landslide in 1928, Hoover saw his popularity plummet. Shantytowns erected around the country by people left homeless by the depression were called “Hoovervilles.” Gallows humor abounded as people joked that Hoover was given a twenty-one gun salute and still wasn’t hit. Protests by farmers and veterans and labor unrest in 1932 doomed Hoover’s hopes for a second term.
New York Governor Franklin D. Roosevelt ran against Hoover on a vague platform, but once in office Roosevelt responded to the country’s crisis with inspiring confidence and eclectic programs. In his inaugural address in 1933, Roosevelt told Americans, “The only thing we have to fear is fear itself.” Use this link to listen and/or watch Roosevelt's inaugural address.

Next, President Roosevelt and an innovative Congress collaborated on a “New Deal” of measures designed to combat various aspects of the depression through the 3 R’s of relief, reform, and recovery.

In the first "100 days" of his administration, Roosevelt and his activist Congress put into place scores of reforms designed to revitalize the economy. Keynesian economists called the infusion of government monies during a depression "priming the pump." The Populists sought to improve the 1890s economy with "free silver." Coining silver was designed to put more money into circulation and thus produce inflation, which was what was needed for farmers to receive more for their crops and pay off their debt. "Priming the pump" used government money to reinvigorate the economy.

Government money sponsored public works projects that put men to work and government programs paid farmers not to grow so much and even destroy some of their products in order to raise the prices. New Deal programs represented the first time that the government took an active role to attempt to pull the nation out of an economic spiral, but they were in no way revolutionary in the sense of changing the American economic system (such as toward socialism). In many ways the New Deal was quite conservative, seeking to preserve capitalism by modifying some of the excesses that had resulted in the Great Depression. The revolutionary aspect to the New Deal was its willingness to commit the federal government to involvement in the everyday lives of Americans.

Today we take that involvement for granted (and in the case of the economic crisis that began in 2008 we demand it as necessity), but in the 1930s it was indeed path-breaking and irreversible. Think about how New Deal programs impact you today - Social Security, insured bank accounts (1933 Federal Deposit Insurance Corporation), the right to join a union (1935 National Labor Relations Act), minimum wage (1937 Fair Labor Standards Act), trails and facilities built by those hired with New Deal monies in national parks and forests, and electricity and irrigation waters from government-constructed dams.

New Deal programs were an alphabet soup of acronyms. Work relief programs such as the CCC or Civilian Conservation Corps (1933) and WPA or Works Progress Administration (1935) put people, men only in the CCC, to work on public works projects such as reforestation in national forests. In the Pacific Northwest, the CCC and WPA constructed Timberline Lodge on Oregon’s Mount Hood. New Deal public works projects included Bonneville and Grand Coulee dams on the Columbia River.
Other New Deal programs attempted to help agriculture and industry recover from the depression and to institute reforms that would prevent another great depression.

The Great Depression affected every region of the United States, but the American West suffered particularly acutely. Listen as historian Richard White looks at the West in the Great Depression (2:11).

The New Deal restored hope and confidence on "Main Street." That restoration came not so much from the actual accomplishments of the measures introduced, but from the activity and vitality of the Roosevelt Administration. Roosevelt experimented with different measures from the conservative National Recovery Administration to the socialistic Tennessee Valley Authority. Neither the bold nor the conservative measures lifted the nation out of the Great Depression. By the end of the 1930s, the Roosevelt Administration moved from domestic concerns to those of national defense and foreign policy as the Second World War began in Europe in September 1939. The United States, as it had in the First World War, stayed out of the conflict until the bombing of Pearl Harbor on December 7, 1941, shocked the nation and thrust the United States into war.

The 1930s were a watershed in American history. Before it, the federal government avoided direct intervention in the economy except during wartime. Since the 1930s, the federal government has continued the active role defined during the New Deal. The centerpiece of New Deal social legislation was the 1935 Social Security Act that established a federal commitment to elderly and needy citizens, legislation that presidents, both Republican and Democrats, have expanded in the decades since. Unsuccessful in ending the Great Depression, the New Deal triumphed in convincing people that one of the federal government’s roles is to establish a safety net for people to protect them from the economy’s periodic precipitous drops. Conservative political columnist George Will noted the significance of the New Deal when he said in the 1980s, “Americans are conservative. What they want to conserve is the New Deal” (qtd. in Schaller 46).

Listen to this video (1:19) in which historian Alan Brinkley discusses the impact of the New Deal.

Listen again to historian David Kennedy on the legacy of the Great Depression (1:20).

Works Cited:


© 2009, rev. 2011 Susan Vetter