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The Great Depression: Three Major Themes from Selected Readings

by Ben Hissmann

For students of twentieth-century American history, the era of the Great Depression stands as an economic, political, and social Great Divide. On one side—prior to the Depression—lay a period of conservatism where business concerns dominated major economic and political institutions. On the other side—subsequent to the Depression—is a new period of liberalism, a period where government and special interest groups have actively sought a balance between business interests and public concerns. According to Robert S. McElvaine:

No period in American history has more to say to us than does the Depression decade. Events in those years have determined the direction of our social and economic policies, our relationship to our government, and our political alignments ever since (1984, p. xiii).

Because the Great Depression years were such a watershed in American history, they have been the subject of intense scrutiny in a vast amount of scholarship. The personalities of Herbert Hoover and Franklin Roosevelt, their policies and programs, the ideologies from which these programs arose, the changing political alignments, and the rise of the New Deal coalition are fully represented in Depression and New Deal scholarship. Yet, at the core of these developments remains an economic calamity of overwhelming proportions. The Depression is the subject of such intense scrutiny precisely because the American economy collapsed, ushering in an era of change. The collapse of the economy brought immense suffering and hardship to millions of Americans; the severity of this crisis necessitated the dramatic institutional reforms which have endured to this day.

Three conclusions about the Great Depression warrant examination and defense:

1. The Great Depression was the result of an unstable economic structure which was toppled by the Crash of 1929.
2. The dominance of traditional classical economic theories prevented Hoover and Roosevelt from enacting the measures needed to lift the nation out of the Depression.
3. The New Deal was an economic failure, but was an era of real and true reform in America.

These conclusions are drawn from selected works on the Depression and the New Deal. John Kenneth Galbraith's *The Great Crash 1929* (1961) examines those factors which underlay the Crash and subsequent economic collapse. McElvaine's overview of the Depression years emphasizes the social and political changes which occurred during this period. The ideas and ideologies which influenced the New Dealers are thoroughly treated by Theodore Rosenof (1975). The volumes edited by Alonzo Hamby (1981) and Harvard Sitkoff (1985) are useful compendia of the broad range of New Deal historiography.

**Unstable Economic Structure**

Widespread support exists for the conclusion that the Great Depression resulted from an unstable economy which was toppled by the Crash of 1929. The dramatic events on Wall Street in October 1929 are sometimes believed to have been the primary cause of the Depression. This is an erroneous belief. Galbraith, the noted Harvard economist, concludes his study of the Crash by analyzing five fundamental weaknesses in the economy. Galbraith asserts that the Crash brought these weaknesses to the fore and magnified their deleterious effects upon the economy (1961, pp. 94, 182-190).

Galbraith cites a distribution of income skewed toward upper income brackets as a fundamental weakness in the economy. Given that the wealthiest five percent of the population received roughly one-third of all personal income, the American economy was dependent on a high level of investment, a high level of luxury consumption, or both, to maintain prosperity. Galbraith’s study shows that wealthy speculators were likely to have suffered heavy losses in the Crash and were thus unable to maintain their high levels of investment and consumption, thereby depressing aggregate demand.

Following the Crash, a weak corporate structure functioned to escalate the deflationary spiral. During the speculative orgy on Wall Street in 1928 and 1929, several hundred investment trusts were formed. The trusts often
held large segments of industrial stocks that were purchased with borrowed funds; these trusts held no physical assets of their own. The Crash reduced the value of their holdings to the point where debt repayment became impossible. This meant further dumping of stocks and a continuing contraction of the money supply as banks refused to loan funds to insolvent ventures.

So too, the nation’s banking system was fragile and subject to panics. Banks could not collect on defaulted corporate or speculative loans following the Crash, and often defaulted themselves. Because deposits were uninsured, the fear of losing one’s assets in an insolvent bank caused depositors to panic. The rush to withdraw savings led to an epidemic of bank closings. (See Amdahl, this volume.)

The United States economy was also weakened by the dubious state of the foreign balance of payments. The U.S. remained a net exporter in the 1920s. In order to balance their accounts with the U.S., foreign nations had to either transfer gold to the U.S. or sell bonds in the United States to secure American currency. Limited gold supplies made selling bonds the preferable option. However, when the high Smoot-Hawley Tariff was enacted in 1930, foreign nations found themselves unable to export to the United States and unable to meet their bond obligations. The result was that many American investors and banks found themselves holding worthless foreign bonds. Speculation in foreign bonds was as disastrous as speculation in the stock market.

Finally, Galbraith derides President Hoover and America’s business leaders and economists for their lack of economic intelligence. He believes that many of the decisions and pronouncements made by these leaders aggravated the deteriorating economic situation. Overly optimistic economic forecasts prior to the Crash and Hoover’s insistence on a balanced budget are roundly criticized by Galbraith. It seems that only courtesy prevents Galbraith from using the term ignorant in his analysis of the actions of these elites.

The general history of the Depression by McElvaine echoes Galbraith’s assertions about an unsound economy. McElvaine gives a larger role to the weakness of the agricultural sector than does Galbraith. He also notes that productivity was increasing faster than wages in the years prior to the Crash. Hence, rising inventories led to a recession in early 1929—another sign of weakness.

The views of Galbraith and McElvaine reflect the general consensus among scholars that a fundamentally unstable economy was thrown from its moorings by the Crash of 1929.
The Limitations of Orthodoxy

The second major conclusion, that the dominance of traditional classical economic theories prevented Hoover and Roosevelt from enacting the measures necessary to lift the nation out of the Depression, is supported by overwhelming evidence.

It would be foolish to argue that Herbert Hoover was not bound by classical economic theories. Both the man's rhetoric and his policies reflect his orthodoxy. The writings of Galbraith and McElvaine prove instructive on this point. Galbraith is extremely critical of Hoover's resolute adherence to classical measures for aiding the economy: express optimism, balance the budget, and raise the tariff. (Doctrinaire *laissez-faire* advocates would object to the tariff as a hindrance to free trade, but by 1930 protective tariffs were a well-established feature of American business capitalism.) Galbraith claims Hoover's policies represented the "triumph of dogma over thought" (1961, p. 191).

McElvaine is also critical of Hoover's policies, but he is more forthright in recognizing that Hoover's actions were consistent with the prevalent economic theories of the time. When Hoover attempted to speed recovery, his measure was an extremely conservative device: the Reconstruction Finance Corporation (RFC). The RFC made government-backed loans to banks and other large industrial enterprises in an effort to provide investment capital. The structure reflects Hoover's belief that if business was confident, the economy would rebound. However, the RFC failed to increase investment to the necessary levels. Hoover failed to realize that Say's Law is fallacious: supply does not create its own demand. Businesses were unwilling to increase production because consumers were unable to buy what was being produced. Hoover's ideological beliefs led to business-oriented policies incapable of yielding recovery.

To argue that Franklin Roosevelt was bound by orthodox and conservative economic theories may seem imprudent. Roosevelt's New Deal was widely assailed by conservatives of the period for its abandonment of classical economic theories (see Robert A. Taft in Hamby, 1981, pp. 29-37). The persistent aura of the New Deal is one of liberal reform of social and economic institutions. Indeed, the introduction to this paper refers to the New Deal as a watershed in the origins of modern American liberalism and the mixed economy. It would seem inconsistent to now argue that Roosevelt and the New Dealers were tradition-bound and conservative.

In reality, there is no inconsistency. Admittedly, the New Deal broke with many traditions and set many precedents in social welfare legislation. The
Social Security Act and the Wages and Hours Act are realities which cannot be dismissed. However, the conclusion under consideration states that Roosevelt was constrained by conservative classical economic theories and that he was thus unable to enact measures which would produce economic recovery. Of concern here are Roosevelt’s economic beliefs and those of New Deal policy-makers, not New Deal legislation. Theodore Rosenof (1975) has examined the words and policies of New Dealers and has written what is, in essence, an intellectual history of the New Deal. Rosenof concludes that while Roosevelt and his advisers held beliefs about curing the Depression which were different from those of Hoover, they were prevented from fully enacting these cures by their adherence to classical economic dogmas, most specifically the doctrine of balanced government budgets.

According to Rosenof, whereas Hoover saw the road to recovery in restoring business confidence, the New Dealers saw the necessity of increasing mass purchasing power. Several New Deal agencies were established to achieve that end, but each reflected a decided uneasiness about fundamentally redistributing the nation’s wealth. For example, the Agricultural Adjustment Act sought to raise farm incomes but was financed by a regressive tax on processors, negating its redistributive aspects. So too, New Deal relief and public works efforts were always viewed as “emergency” measures (Rosenof, 1975, p. 54). Roosevelt shared Hoover’s disdain for the dole. The National Recovery Administration, the New Deal agency designed to harmonize relations between labor and management, was dominated by business interests as was the RFC, and because wage increases were tied to price increases under NRA codes, purchasing power was not increased notably by the NRA.

Roosevelt’s desire to balance the budget is primarily responsible for his reticence in whole-heartedly pursuing policies to increase mass purchasing power. When conditions improved in 1936 and early 1937, Roosevelt hastened to cut government spending in order to achieve a balanced budget. The result was a sharp economic downturn in 1937 and 1938. Rosenof believes that if New Dealers had analyzed their spending efforts, they would have realized it was possible to spend themselves out of the Depression (1975, p. 112). John Maynard Keynes, the seminal British economist, was unsuccessful in showing Roosevelt that recovery would result from massive increases in government spending and concomitant tax cuts. Roosevelt could not accept such budget-busting fiscal policies.

James MacGregor Burns (in Hamby, 1981, pp. 123-140) is also critical of Roosevelt’s adherence to orthodox prescriptions for recovery. Burns believes that hesitant advisers and political expediency may have discourag-
ed Roosevelt from adopting a Keynesian fiscal policy, but he gives greater weight to the possibility that the president’s intellect was simply unable to comprehend the efficacy of such a policy.

New Deal improvisations, while certainly more active than Hoover’s orthodoxy, were restrained by the Roosevelt administration’s fiscal conservatism and deep beliefs in balanced budgets. As Rosenof declares, the New Deal failed, “to transcend the folklore of capitalism” (1975, p. 132).

**Economic Failure, Social Reform**

According to the third and final conclusion, the New Deal was a failure economically, but was an era of real and true reform in American institutions. This conclusion is actually an amalgamation of two separate assertions. The first—that the New Deal failed economically—is evident. Key economic indicators such as Gross National Product did not return to pre-Depression levels until 1941 when the Roosevelt administration adopted a Keynesian fiscal policy as large military expenditures pulled the economy out of the Depression.

However, to say that the New Deal failed economically is not to say that the New Deal was a complete failure. Indeed, McElvaine’s history of the period is very sympathetic to the New Deal, yet he states, “For all it did, for all it changed, the New Deal never succeeded in its primary goal: ending the depression,” (1984, p. 337).

The second aspect of this conclusion—that the New Deal was an era of real reform of American institutions—is a matter of spirited debate among historians. Indeed, historians cannot even agree on which interpretations are in the ascendancy. Hamby introduces his edition of several analytical essays by asserting that a sympathetic, liberal consensus dominates New Deal scholarship (1981, p. 1). Conversely, the eminent New Deal historian William Leuchtenburg claims that recent New Deal historiography is generally negative and critical (in Sitkoff, 1985, pp. 211-212).

What then are the major lines of debate in New Deal historiography? The volumes edited by Sitkoff and Hamby show that those who support the New Deal face three types of critiques: the intellectual, the conservative, and the radical New Left critique.

Before examining these critiques we should note some of those historians who are inclined to judge the New Deal favorably. Especially prominent in this group are Frank Freidel and Arthur M. Schlesinger, Jr. (in Hamby) and Richard Kirkendall, Robert Bremner, and William Leuchtenburg (in
Sitkoff). These writers are especially pleased with Roosevelt’s willingness to implement reform legislation in support of the laborer, the aged, and the disabled. They see Roosevelt as a pragmatic experimenter who sought to redress the imbalance between business interests and the “common man’s” rights. They praise Roosevelt for his attempts to reform capitalism and prevent a fascist revolution as occurred in Europe (see Kirkendall). Schlesinger says that FDR was the first president to judge his policies according to their effects on the people and not according to their conformity to economic theories (in Hamby, p. 120).

The intellectual critique is so named because Roosevelt is attacked for his lack of intellectual and doctrinal consistency. In a sense, Roosevelt is criticized for the same characteristic that supporters praise: flexibility of mind and measures. Whereas supporters see Roosevelt as a pragmatic experimenter, the critics of his intellect see an unsystematic improviser. Burns and Rosenof typify this school of thought.

The conservative critique is essentially a political attack, not objective historical analysis. This is illustrated by an excerpt from a 1939 radio address by Republican Senator Robert A. Taft of Ohio (in Hamby, 1981, pp. 29-37). Taft presented a contemporary criticism of New Deal economic activism, claiming the long list of New Deal legislation was creating a chaotic atmosphere in which business leaders would not invest. This critique is an outgrowth of orthodox economic theory and the “confidence” cures those theories entail. Hoover and Taft are ideological soul-mates with regard to the conservative critique. (It is interesting to note that in the age of 1980s neo-conservatism, neither the 1981 Hamby volume nor the 1985 Sitkoff edition contains a more recent conservative critique of the New Deal.)

The last of the critiques of the New Deal is the socialist view of the New Left historians. Ronald Radosh (in Hamby, 1981, pp. 39-57) presents this view. He sees the reforms of the New Deal as mythical, not actual. The New Deal is seen as a concerted effort by business and government to implement a corporate capitalist system where the interests of big business would be protected. In this view, the New Deal prevented more radical reforms from being enacted. Radosh cites corporate support for reform measures (e.g. Gerard Swope of General Electric) as evidence of this corporatist conspiracy (p. 44ff). He feels those historians who support the Roosevelt program, especially Arthur Schlesinger, Jr., suffer a “false consciousness” (p. 56).

The historiographic camps have been surveyed and the common critiques of the New Deal outlined. It is now necessary to support the conclusion that the New Deal was an era of meaningful reform. An argument
in the form of *reductio as absurdum* will best serve the purposes of refuting the criticisms levelled against the New Deal.

First, it may be said the intellectual critique begs the question. The conclusion states that there was meaningful reform while the intellectual critics charge that these reforms were unsystematic. So what? The desire of some historians to be able to neatly classify government actions according to theoretical models in no way negates the meaningful and salutary effects of such legislation as the Wagner Act, the Social Security Act, and the Wages and Hours Act.

Secondly, the conservative critique is reduced to an absurdity when one considers the origins of the Crash and of the Depression. The conservatives argue that nothing needed to be done to resurrect the economy, saying that business confidence would, in time, have restored prosperity. Can these conservatives explain why, during the extremely confident years of the late 1920s, the economy was so unstable and why the market plummeted? As to the view that "in time" the economy would right itself, conservatives would do well to remember John Maynard Keynes's remark that "In the long run we are all dead" (1924, p. 88).

Finally, the New Left critics seem to be practicing poor historical philosophy and methodology when they assign motives to historical personages when it is very likely that those persons held no such motives. To lambast Franklin Roosevelt for not being a socialist is certainly a questionable practice. To assert that a business-government conspiracy prevented more radical reforms desired by the electorate is to ignore the fact that socialist electoral support declined from 1932 to 1936. As Kirkendall writes, "The American voters chose Roosevelt, not revolution" (in Sitkoff, 1985, p. 15).

The following quote from Leuchtenburg succinctly states the nature and extent of New Deal reforms:

What then did the New Deal do? It gave far greater amplitude to the national state, expanded the authority of the presidency, recruited university-trained administrators, won control of the money supply, established central banking, imposed regulation on Wall Street, rescued debt-ridden farmers and homeowners, built model communities, financed the Federal Housing Administration, made federal housing a permanent feature, fostered unionization of the factories, reduced child labor, mandated minimum working standards, . . . introduced the welfare state with old-age pensions, unemployment insurance, and aid for dependent children, . . . changed the agenda of American politics, and brought about a Constitutional Revolution (in Sitkoff, 1985, p. 228).
Summary

The era of the Great Depression, despite its significance in the development of modern economic, social, and political institutions, is often viewed simplistically. Many people believe that the Crash of October 1929 was the fundamental cause of economic collapse, that Franklin Roosevelt was not bound by capitalist orthodoxy, and that the implementation of New Deal relief programs pulled the economy from the depths of Depression. This paper has shown that such beliefs reflect an unsophisticated understanding of the nature of the causes and attempted cures of the Depression. Examination of a sample of Depression-era scholarship shows the following to be true. The fundamental cause of the Depression was not the Crash but a structurally unsound economy. The Crash triggered the collapse; it did not cause it. Franklin Roosevelt was essentially a fiscal conservative in the same vein as Herbert Hoover. The relief and recovery programs initiated by Roosevelt were never implemented on the scope necessary to end the Depression because of Roosevelt’s aversion to deficit spending. Though the New Deal programs failed to fully revive the economy, many important and beneficial laws and programs launched under the banner of the New Deal remain integral facets of modern American life. These points correct common misconceptions about the Depression and are important to remember to gain an accurate perspective on the events of the 1930s.

References


