The Great Depression: Crash Course US History #33

Crash Course: U.S. History
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=====Introduction=====

Hi, I'm John Green, this is Crash Course: U.S. History, and Herbert Hoover's here, which is never a good sign.

Today, we're going to return to two of my favorite topics: economics and inaccurate naming conventions. That's right, we're going to be talking about the Great Depression, which was only great if you enjoy, like, being a hobo or selling pencils. Now, some of you might get a bit frustrated today, because there's no real consensus about the Great Depression, and simple declarative statements about it really say much more about you than they do about history.

Why are you looking at me, Mr Green? I didn't say anything. I thought it.

Because, Me-from-the-past, you always want things to fit into the simplistic narratives - she loves me, she loves me not, the Great Depression was caused by X or was caused by Y - it's complicated!

(Intro)

=====Long-term Economic Weaknesses (0:48)=====
Many people tell you that the Great Depression started with the stock market crash in October 1929, but a) that isn't true, and b) it leads people to mistake correlation with cause. What we think of as the Great Depression did begin after the stock market crash but not because of it.

Like as we saw last week, the underlying economic conditions in the U.S. before the stock market crash weren't all moonshine and rainbows. The 1920s featured large-scale domestic consumption of relatively new consumer products, which was good for American industry, but much of this consumption was fueled by credit and instalment buying, which, as it turned out, was totally unsustainable. The thing about credit is that it works fine unless and until economic uncertainty increases, at which point [explosion noises]. That's a technical historian term, by the way.

Meanwhile, the agricultural sector suffered throughout the 1920s, and farm prices kept dropping for two reasons. First, American farms had expanded enormously during World War I to provide food for all those soldiers, and second, the expansion led many farmers to mechanize their operations.

As you'll know if you've ever bought a tractor, that mechanization was expensive and so many farmers went into debt to finance their expansion, and then a combination of overproduction and low prices meant that often their farms were foreclosed upon.

And other signs of economic weakness appeared throughout the decade. Like, by 1925 the growth of car manufacturing slowed along with residential construction. And worst of all was what noted left wing radical Herbert Hoover labelled an "orgy of mad speculation" in the stock markets that began in 1927. By the way, I'm kidding about him being a left wing radical. You - just look at him.

According to historian David Kennedy, "By 1929, commercial bankers were in the unusual position of loaning more money for stock market and real estate investments than for commercial ventures." I wonder if we would ever find ourselves in that position again? Oh, right, we did in 2008.

Anyway, it's tempting to see the stock market crash as the cause of the Depression, possibly because it turns American economic history into morality play, but the truth is that the stock market crash and the Depression were not the same thing.

A lot of rich people lost money in the market but what made the Great Depression the Great Depression was massive unemployment and accompanying hardship. And this didn't actually begin until like 1930 or 1931. The end of 1929 was actually okay, unless you were a farmer or a stock broker, obviously.

=====Thought Bubble: The Failure of the Banking System (3:00)=====

So what did actually cause the Depression? Well that's a big question and it's one that economists have struggled with ever since. They want to find out so they can keep it from ever happening again. No pressure, economists.

Only 3% of Americans actually owned stock, and the markets recovered a lot of their value by 1930, although they did then go down again because, you know, there was a depression on. And even though big banks and corporations were buying a lot of stock, much of it was with borrowed money known as margin buying, and all of that still was not nearly a big enough iceberg to sink the world's economy.

But if I had to name a single cause of the Great Depression, it might be America's weak banking system. Alright, let's go to the Thought Bubble.

Although the Federal Reserve System had been created in 1913, the vast majority of America's banks were small, individual institutions that had to rely on their own resources. When there was a panic and depositors rushed to take money out of the bank, like they do in the obscure art house movie *Mary Poppins*, the bank went under if it didn't have enough money on reserve.

So, in 1930, a wave of bank failures began in Louisville that then spread to Indiana, Illinois, Missouri and, eventually, Arkansas and North Carolina. As depositors lined up to take their money out before the banks went belly-up, banks called in loans and sold assets. Ultimately, this meant that credit froze up, which was what really destroyed the economy.

A frozen credit system meant that less money was in circulation and that led to deflation. Now, you're probably thinking, 'Big deal - deflation can't be as bad as inflation, right?' No. Deflation is much worse, as anyone who has ever slept on an air mattress knows. When prices drop, businesses cut costs mainly by laying off workers. These workers then can't buy anything so inventories continue to build up and prices drop further.

Banks weren't lending money, so employers couldn't borrow it to make payroll to pay their workers, and more and more businesses went bankrupt, leaving more and more workers unable to purchase the goods and services that would keep the businesses open.

So if we have to lay the blame for the Great Depression on someone, we can blame the banks, which isn't completely wrong, and it gives us a chance to shake our fists at Andrew Jackson whose distrust of central banking got us into this mess in the first place.

That's probably too simple, but the Federal Reserve does deserve a good chunk of the blame for not rescuing the banks and not infusing money into the economy to combat this deflationary cycle. Thanks, Thought Bubble.

=====Impact of Global Depression (5:10)=====

So economics fans out there might be saying, "Why didn't the Hoover administration engage in some good old-fashioned Keynesian pump priming?" The thinking there is that if governments do large-scale economic stimulus and a bunch of infrastructure projects, it can kind of create a bottom that stops the deflationary cycle.

And that does often work but, unfortunately, the Hoover administration did not have a TARDIS. John Maynard Keynes' great work, *The General Theory of Employment, Interest and Money* (he wasn't very good at titles), wasn't published until 1936, when the Depression was well underway.

Venturing into the Green Nightmare of Not-America for a moment, Herbert Hoover offered a global explanation in his memoirs for the global phenomenon that was the Great Depression. He claimed that its primary cause was World War I and, to be fair, the war did set the stage for a global economic disaster because of the web of debts and reparations that it created.

Like, under the Versailles Treaty, Germany had to pay 33 billion dollars in reparations, mostly to France and Britain, which it couldn't pay without borrowing money from American banks. In addition, the U.S. itself was owed ten billion dollars by Britain and France, some of which those countries paid back with German reparations.

But then, once American credit dried up, as it did in the wake of the stock market crash and the American bank failures, the economies of Germany, France and Britain also fell off a cliff. And then, with the largest non-U.S. industrial economies in total turmoil, fewer people abroad could buy American products or French wine or Brazilian coffee and world trade came to a halt.

And then, when what the world really needed was more trade, America responded by raising tariffs to their highest levels ever with the Hawley-Smoot Tariff, a law that was as bad as it sounds. The idea of the high tariff was to protect American industry but since Europe responded with their own high tariffs, that just meant that there were fewer buyers for American goods, less trade, fewer sales and, ultimately, fewer jobs.

=====Hoover's Response (6:57)=====
So what did Hoover do? Not enough. It's important to remember that the American government is not just the President. Hoover couldn't always get Congress to do what he wanted but his political ineptitude was not particularly surprising, because the first elected office that he ever held in his life was President of the United States.

Like, let's take the foreign debt issue. Hoover proposed a moratorium on intergovernmental debt payments and he actually got Congress to go along with it, but it wasn't enough, mainly because the central bankers in Europe and America refused to let go of the gold standard, which would have allowed the governments to devalue their currency and pump needed money into their economies.

And when Britain, rather heroically, I might add, did abandon the gold standard in 1931 and stopped payments in gold, the U.S. did not follow suit, which meant that world financial markets froze up even further. Like, this is a little bit complicated but if you and I have always used Cheetos as currency to exchange goods and services, and one day I announce that we can't really do that anymore because it doesn't give us the flexibility that we need to pull ourselves out of this deflationary spiral, if I don't also agree to abandon Cheetos then it's going to be a total disaster, which it was.

And then, even worse, the Fed raised its discount rate, making credit even harder to come by. By the end of 1931, 2294 American banks had failed - double the number that had gone under in 1930. Now, it's easy to criticize poor Herbert Hoover for not doing enough to stop the Great Depression, and he probably didn't do enough, but part of that is down to our knowledge of what happened afterward - the New Deal.

That Franklin Delano Roosevelt at least tried to do something about the Depression makes us forget that when Hoover was president, orthodox political and economic theory counselled in favor of doing nothing. And at least Hoover didn't follow the advice of his Treasury Secretary who, according to Hoover anyway, argued that the solution was to "liquidate labor, liquidate stocks, liquidate the farmers, liquidate real estate," which sounds like the worst milkshake ever.

Instead, Hoover believed that the best course of action was to "use the powers of government to cushion the situation", and in a White House meeting, he persuaded a large number of industrialists to agree to maintain wage rates. He also got the Federal Farm Board to support agricultural production and got congressional approval for 140 million dollars in new public works.

Overall, he nearly doubled the federal public works expenditure between 1929 and 1931, it just wasn't nearly enough. Because what Hoover didn't allow was for the federal government to take over the situation completely. He relied primarily on private businesses and state and local governments to stimulate the economy, and that was insufficient. It's not surprising when you consider that in 1929, federal expenditures accounted for 3% of our gross domestic product. Today, it's more like 20%.

So it was just really hard to imagine the federal government doing anything on such a large scale to address a national problem because it had never really done that much before. Hoover also hiked taxes as part of a plan to stabilize the banks by balancing the federal budget, providing confidence for foreign creditors and stopping them from buying American gold. This would support bonds and also keep the federal government out of competition with private borrowers. The Revenue Act of 1932 passed Congress but it didn't do much to stop the Depression. In fact, arguably, it made it worse.

And so, ultimately, this dire situation forced Hoover into a truly radical move. In January 1932, he and Congress created the Reconstruction Finance Corporation, which was basically a federal bailout program that borrowed money to provide emergency loans to banks, building and loan societies, railroads and agricultural corporations.

The problem was that by 1932, bailing out the banks wasn't enough, and the Great Depression started to take shape. By early 1932, well over 10 million people were out of work - 20% of the labor force. And in big cities the numbers were even worse, especially for people of color. Like in Chicago, 4% of the population was African-American, but they made up more than 16% of the unemployed.

Although Hoover famously claimed that no one starved, which was a little bit "let them eat cake-y", people did search trash cans for food and many Americans were forced to ask for relief. Hoover's response was to try to encourage private charity through the unfortunately acronymed President's Organization on Unemployment Relief, or POUR.

New York City's government relief programs rose from 9 million dollars in 1930 to 58 million in 1932 and private charitable giving did increase from 4.5 million to 21 million and that sounds great until

you realize that the total of 79 million dollars that New York City spent on relief in 1932 was less than one month's lost wages for the 800 000 people who were unemployed.

=====The Mystery Document: More Unrelenting Misery (11:23)=====

Oh, it's time for the Mystery Document? I hope it's a break from the unrelenting misery. Probably not. The rules here are simple: I guess the author of the Mystery Document and then usually fail and get shocked with shock pen, which is a real shock pen no matter what you people say! Alright, what do we got here?

> We sit looking at the floor. No one dares think of the coming winter. There are only a few more days of summer. Everyone is anxious to get work to lay up something for that long siege of bitter cold. But there is no work. Sitting in the room we all know it. This is why we don't talk; much. We look at the floor dreading to see that knowledge in each other's eyes. There is a kind of humiliation in it. We look away from each other. We look at the floor. It's too terrible to see this animal terror in each other's eyes.

I mean, Stan, unemployment was 25% and this could be literally any of those people. I'm going to guess that it's a woman because men were usually on the road trying to find work, while women would go to these offices to look - I - I mean it could be any - I have no idea! Um, Janet Smith.

Meridel Le Sueur? She's a good writer, maybe we should hire her. [Shouts]

So, often at Crash Course we try to show how conventional wisdom about history isn't always correct, but in the case of the hardships experienced during the Great Depression, it really is. The pictures of Dorothea Lange and Walker Evans and Steinbeck's description in the *Grapes of Wrath* of "Okies leaving the Dust Bowl in the usually vain hope of a better life in California" - they tell the story better than I can.

Thousands of Americans took to the road in search of work and thousands more stood in bread lines. There were shanty towns for the homeless called "Hoovervilles" and there were protests like the Bonus March on Washington by veterans seeking an early payment of a bonus due to them in 1945.

=====Conclusion (13:10)=====

A lot of the debate around the Great Depression revolves around the causes, while still more concerns the degree to which the federal government's eventual response, the New Deal, actually helped to end the Depression. Those questions are controversial because they're still relevant.

We're talking about how to regulate banking. We're still talking about what the government's role in economic policy should be and whether a strong federal government is ultimately good for an economy or bad for it. And how you feel about the government's role in the Great Depression is going to depend on how you feel about government in general.

That said, we shouldn't let our ideological feelings about markets and governments and economics obscure the suffering that millions of Americans experienced during the Great Depression. For generations of Americans, it was one of the defining experiences of their lives. Thanks for watching, I'll see you next week.

=====Credits (13:54)=====

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Thank you for watching and supporting Crash Course and, as we say in my hometown, don't forget to be awesome. I'm going to hit the globe! Nailed it.