

Chapter 10

The Great Depression

ON THE morning of October 24, 1929, the towering structure of American prosperity cracked wide open. For many days the prices of stocks on the New York Stock Exchange had been sliding faster and faster downhill; that morning they broke in a wild panic. The leading bankers of New York met at the House of Morgan to form a buying pool to support the market; Richard Whitney, brother of a leading Morgan partner, thereupon crossed the street to the great hall of the Stock Exchange and put in orders to buy United States Steel at 205; and for a time prices rallied. Pierpont Morgan had halted the Panic of 1907. Surely this panic, too, would yield to the organized confidence of the great men of the world of finance.

But within a few days it was clear that they could no more stop the flood of selling than Dame Partington could sweep back the Atlantic Ocean. On it went, session after session. On the worst day, October 29, over sixteen million shares of stock were thrown on the market by frantic sellers. And it was not until November 13 that order was restored.

In the course of a few brief weeks, thirty billion dollars in paper values had vanished into thin air—an amount of money larger than the national debt at that time. The whole credit structure of the American economy had been shaken more severely than anybody then dared guess. The legend of Wall Street leadership had been punctured. And the Great Depression was on its way.

At first business and industry in general did not seem to have been gravely affected. Everybody assured everybody else that nothing really important had happened, and during the spring of 1930 there was actually a Little Bull Market of considerable proportions. But in May this spurt was at an end. And then there began an almost uninterrupted two-year decline, not only in security prices, but also—an infinitely more serious matter—in the volume of American business: a vicious circle of ebbing sales, followed by declining corporate income, followed by attempts to restore that income by cutting salaries and wages and laying off men, which caused increased unemployment and further reduced sales, which led to increased business losses, which led to further wage cutting and further firing of men, and so on toward disaster.

During these bewildering years President Hoover at first tried to organize national optimism by summoning business executives to Washington to declare that conditions were fundamentally sound and that there would be no wage cutting. This didn't work. Then for a time he was inactive, trusting to the supposedly self-correcting processes of the market. These didn't work. Then, convinced that the financial panic which was simultaneously raging in Europe was the worst source of trouble, he organized an international moratorium in war debts and reparations—a fine stroke of diplomacy which alleviated matters only briefly. Then he set up the Reconstruction Finance Corporation to bring federal aid to hard-pressed banks and businesses—while steadfastly refusing, as a matter of principle, to put federal funds at the disposal of individual persons who were in trouble. Just when it seemed as if recovery were at hand, in the winter of 1932-1933, the American banking system went into a tailspin; even the RFC solution hadn't worked. The result was one of the most remarkable coincidences of American history. It was on March 4, 1933—the very day that Hoover left the White House and Franklin D. Roosevelt entered it—that the banking system of the United States ground to a complete halt. An able and highly intelligent President, committed to orthodox economic theories which

were generally considered enlightened, had become one of the tragic victims of the collapse of the going system.

Whereupon Roosevelt, declaring in his cheerfully resolute Inaugural Address that "the only thing we have to fear is fear itself," swept into a tornado of action—successfully reopening the banks and initiating that lively, helter-skelter, and often self-contradictory program of reform, relief, and stimulation which was to keep the country in a dither during the middle nineteen-thirties and bring at least a measure of recovery.

Distressing failures are readily forgotten, whether they are personal or national; instinctively one tries to lock away the memory of them. It was quite natural, in later years, for Republicans to try to gloss over what had happened during Hoover's long ordeal; for believers in individualism to try to forget the tumble that private enterprise had taken; and, for that matter, for patriots generally to minimize what seemed a blot on the national record. And there were millions of Americans to whom the Great Depression was associated with such painful personal memories that they tried, unconsciously perhaps, to banish the recollection of it from their minds. Any writer who reaches it in his chronicle is aware that at this point some readers will be tempted to put his book down. Yet there are several things about the Great Depression that must be borne in mind if one is to understand the subsequent fortunes of the American people.

1. It was a collapse of terrifying proportions and duration. At the middle of the year 1932—more than two and a half years after the crash of 1929—American industry as a whole was operating at *less than half* its maximum 1929 volume. During this year 1932, the total amount of money paid out in wages was *60 per cent less* than in 1929. The total of dividends was 57 per cent less; and these dividends represented the *earnings* of the more fortunate concerns—some might say the more ruthless toward their employees—while American business as a whole was running at a net loss of over five billion dollars.

As for stock prices, which were traditionally related to the amount

of optimism in the business community, take a look at a few samples. General Motors common, which had been priced at $72\frac{3}{4}$ at the peak of the Bull Market in 1929, and had fallen in the Panic to 36, reached a 1932 low of $7\frac{5}{8}$. Radio Corporation common, which had been 101 at the peak, and 26 after the Panic, got as low as $2\frac{1}{2}$. And United States Steel, long considered the bellwether of the market, with a 1929 high of $261\frac{3}{4}$ and a post-Panic quotation of 150, sank to $21\frac{1}{4}$.

In that year over 12 million Americans were unemployed. In the industrial towns the proportion of jobless people was staggering. In Buffalo, for instance, a house-to-house canvass of nearly fifteen thousand people who were ready and able to work showed that 31 per cent of them could not find jobs, and less than half of them were working full time. And meanwhile the farmers were in desperate straits, with cotton bringing less than 5 cents, wheat less than 50 cents, and corn only 31 cents.

It was an oddly invisible phenomenon, this Great Depression. If one observed closely, one might note that there were fewer people on the streets than in former years, that there were many untenanted shops, that beggars and panhandlers were much in evidence; one might see breadlines here and there, and "Hoovervilles" in vacant lots at the edge of town (groups of tar-paper shacks inhabited by homeless people); railroad trains were shorter, with fewer Pullmans; and there were many factory chimneys out of which no smoke was coming. But otherwise there was little to see. Great numbers of people were sitting at home, trying to keep warm.

2. The Great Depression was part of a world-wide collapse: what Karl Polanyi has aptly characterized as the collapse of the market economy that had been established during the nineteenth century.

3. It marked millions of people—inwardly—for the rest of their lives. Not only because they or their friends lost jobs, saw their careers broken, had to change their whole way of living, were gnawed at by a constant lurking fear of worse things yet, and in all too many cases actually went hungry; but because what was happening to them seemed without rhyme or reason. Most of them had been brought

up to feel that if you worked hard and well, and otherwise behaved yourself, you would be rewarded by good fortune. Here were failure and defeat and want visiting the energetic along with the feckless, the able along with the unable, the virtuous along with the irresponsible. They found their fortunes interlocked with those of great numbers of other people in a pattern complex beyond their understanding, and apparently developing without reason or justice.

Even if they tried to hide their dismay, their children sensed it and were marked by it. The editors of *Fortune* wrote in 1936: "The present-day college generation is fatalistic . . . it will not stick its neck out. It keeps its pants buttoned, its chin up, and its mouth shut. If we take the mean average to be the truth, it is a cautious, subdued, unadventurous generation. . . ." As time went on there was a continuing disposition among Americans old and young to look with a cynical eye upon the old Horatio Alger formula for success; to be dubious about taking chances for ambition's sake; to look with a favorable eye upon a safe if unadventurous job, social insurance plans, pension plans. They had learned from bitter experience to crave security.

4. The Great Depression brought the abdication of Wall Street from the commanding position which it had achieved in the late nineteenth century, had consolidated under the personal leadership of Pierpont Morgan, and had institutionalized since his death in 1913. Not only had the big bankers of 1929 failed to stop the Panic, but as time went on the inability of financiers generally to cope with the down trend, their loss of confidence in their own economic convictions, and the downfall of the banking system itself all advertised their helplessness. If after 1933 a part of their former power passed to the big corporation executives who had formerly regarded them with deference, and a much larger part of it passed to Washington, which now became the economic as well as political capital of the nation, this was at least partly because nature abhors a vacuum.

5. The Depression sharply lowered the prestige of businessmen. The worst sufferers were the bankers and brokers, who found themselves translated from objects of veneration into objects of public

derision and distrust—the distrust being sharply increased by the evidences of financial skullduggery which came out in successive congressional investigations. But even business executives in general sank in the public regard to a point from which it would take them a long time to recover; and in this decline the conscientious and public-spirited suffered along with the predatory.

6. Yet the world-wide Depression—though it brought Hitler to power in Germany, and in many other lands seemed to have sounded the death knell of capitalism—brought to the United States nothing approaching a revolution. It brought an epidemic of proposals for economic panaceas—the cult of technocracy, Upton Sinclair's EPIC, the Townsend Old Age Revolving Pensions Plan, and suchlike; it brought the dictatorlike Huey Long to brief regional power; it brought riots at farmers' bankruptcy sales, a Communist-led "march" on Washington, and the briefly ominous Bonus Army march of 1932. It also saw a rapid growth in the intellectual influence and labor-union influence of the Communists—though not in their voting strength, which remained extremely small. But despite the dismay of uncounted Americans at their lot, there was no revolution—just a shift of power from one political party to the other, after the time-honored custom. And although Roosevelt's New Deal introduced a hodge-podge of reforms and regulations and interferences with what had been known as economic law, only a few people—some of the starry-eyed zealots of the Washington bureaucracy, on the one hand, and a few die-hard haters of the regime, on the other—thought of these reforms as introducing a total change in the political or economic structure of the United States.

To the *New York Times* of December 31, 1933—when Roosevelt had been in office less than a year—the English economist John Maynard Keynes contributed an open letter to the President. "You have made yourself," he wrote, "the trustee for those in every country who seek to mend the evils of our condition by reasoned experiment within the framework of the existing social system. If you fail, rational change will be gravely prejudiced throughout the world, leaving orthodoxy and revolution to fight it out." As things eventuated,

orthodoxy and revolution were not left to fight it out. Experiment within the framework of the existing social system was the order of the day. Once more, as during the revolt of the American conscience, the American way of coping with a revealed defect in the national machinery was to make a series of experimental repairs while the machine was running—and to do this through the traditional party machinery of America.

The long-standing political coolness between the Oyster Bay Roosevelts and the Hyde Park Roosevelts should not blind us to the striking parallels between the approach to public affairs of Franklin Delano Roosevelt and of his wife's uncle Theodore Roosevelt. Both men had wealth. Both championed the underdog out of conviction, though they were upperdogs themselves. Both were men of abounding energy and captivating charm, though Theodore's was the more rugged, Franklin's the more gracious. Both were exuberantly interested in people, people of all sorts and conditions. Neither had a systematic economic philosophy; both, in devising their policies and programs, played by ear; and both thought of economic problems as essentially moral problems. Each, in his own time, was curiously fitted to bring change without the ideology or the violence of revolution.

II

There is no need to rehearse here in detail the familiar story of the New Deal: how the country was cheered and galvanized by Roosevelt's convincing and contagious confidence in the spring of 1933; how in his very first "fireside chat" over the radio, when the banks were still closed, he conveyed a serene assurance that they could be successfully opened—as they shortly were; how during the wild first hundred days he jammed through Congress, at record-breaking speed, a jumble of hastily improvised legislation; how the conservatives, and well-to-do people generally, began before long to foam with rage at him as he continued to push his reform program, and tinkered with the price of gold, and ran up big federal deficits as Harry Hopkins furnished relief through the WPA to millions of families; how he gathered about him two successive Brain Trusts

composed of bright young idealists who furnished him with economic ideas and oratorical ammunition; how he defeated the Republican Landon in 1936, tangled with the Supreme Court in 1937, and faced and overcame—with the aid of further federal spending—the sharp “recession” of 1937-1938; and how he thereafter was distracted from his New Deal objectives by the storm clouds over Europe moving nearer and nearer. It is necessary only to note the hard fact that the New Deal did not at any time bring a full return of prosperity; that was not to come until defense spending went into high gear in 1940-41.

But in many ways the New Deal permanently altered the nature of the American economy, and we may well pause for a moment to look at some of the changes it brought about and the new forces it unleashed.

In the first place it rewrote a good many of the rules of the economic game as played in America. For instance, in order to prevent any recurrence of the financial follies of the nineteen-twenties, it divorced commercial banks from the securities business, forbade the issue of securities without exhaustive disclosure of pertinent facts, circumscribed pool operations on the stock exchanges and set up a federal agency to police these exchanges, and dismantled the more illogical holding-company structures in the utilities business. Not only was there a new rule book, but at many points the federal government moved in as umpire to interpret and enforce the rules.

In the second place, it intervened extensively in the economic game as protector of the underdog. For instance, because the operations of one of the old-time rules of the game, the law of supply and demand, appeared to be doing damage to the American farmer, it stepped in to jack up and then to guarantee the prices he got. (The anomalous result was that the farmers of the United States, as conservative a group temperamentally as were to be found in the land, became dependent for their very economic lives upon government decisions in their behalf!) Similarly, the New Deal continued to prop up ailing corporations through Hoover's RFC; made arrangements to prevent near-bankrupt firms from going broke; aided farmowners and home-

owners in meeting their mortgage payments; underwrote the financing of new housing enterprises; insured bank deposits; gave a measure of aid to unemployed people and old people through Social Security; and wrote a minimum wage and hours law for labor.

All this was as if Washington were saying, "Do a lot of people seem likely to get gypped through the unhindered workings of economic law? All right, we'll make it up to them through subsidies, guarantees, or insurance." In short, while the New Deal did not abolish the market place as the determiner of values and rewards, it rigged the market plenty.

In the third place, it went into the active business of stimulating employment, by building dams, bridges, parkways, and playgrounds on the grand scale, and by putting even the recipients of relief to work at all manner of enterprises carefully concocted so as not to interfere with private business; and it set up the Tennessee Valley Authority to do a combined job of competing with the private electric utilities, preventing floods, and teaching farmers some of the principles of conservation.

In the fourth place, the New Deal gave a go-ahead signal to organized labor. Up to this time such laws as seemed to authorize collective bargaining, like the Clayton Act, had frequently been nullified by the courts. But now the Norris-LaGuardia Anti-injunction Act of 1932 was followed by Section 7a of the National Industrial Recovery Act of 1933, and—after that law had been set aside by the Supreme Court—by the Wagner Act. The authorization to organize being clear and specific, there was a rush to join unions. In 1935 John L. Lewis formed the CIO, which on being expelled from the A F of L became a rival outfit specializing in industrial unions. The CIO moved into the hitherto unorganized heavy industries, especially the automobile and steel industries, and a terrific struggle ensued: unreconstructed employers spending hundreds of thousands of dollars on hiring industrial spies and plug-uglies; angry workers organizing violent strikes. Within a few months from the fall of 1936 to the spring of 1937, almost half a million American men and women quit their jobs, mostly using the new—and illegal—sit-down technique

fostered by Communist organizers and taken up by others too; there was a tension in the industrial towns almost as of civil war, with riots and bloodshed. But at the height of the tension Myron Taylor, chairman of the board of the great United States Steel Corporation, voluntarily entered into a union contract with a unit of the CIO; and although the little steel companies continued the struggle, it was presently clear that unionization was the order of the day.

By the end of the decade the number of union members in the United States had climbed from the 1933 figure of less than three millions to nearly nine millions; office workers who had never in their earlier years dreamed of joining a union found themselves organizing and threatening to strike; executives and their employees found themselves separated from one another by a wall of mutual distrust; and, partly because of union pressures, the average work week in business and industry was about five hours shorter than it had been at the beginning of the decade (one estimate gave a decline from 49.3 hours to 44 hours), and the two-day week end was becoming standard.

Through its general sympathy with labor, the New Deal had unleashed what J. Kenneth Galbraith has subsequently called a "countervailing force" in the American economy—a force which, acting in opposition to business managements, and generating for the time being a formidable amount of friction, served to bring about a redistribution of the national income downward to those in the lower income brackets.

Finally, the New Deal tried to do a job of managing the national economy as a whole. It abandoned the automatically operating gold standard and introduced something approaching a managed currency. It abandoned the idea that the first duty of a government was to balance its budget, and embraced the Keynesian idea of deficit spending, with the highly optimistic notion that deficits in bad years would be counterbalanced by surpluses in good years. Whatever the dangers inherent in such a dream, at least the idea became pretty solidly established that it was the job of the authorities at Washington so to

manipulate their spending and their fiscal controls that the economy would run on a reasonably even keel.

The result of all these interventions—the reform measures, the subsidies and guarantees, the public works, the encouragement of labor, and the attempt to steer the economy as a whole—was certainly not a socialist order, at least in the old sense of the government's taking over the management of business and industry. For the management of the vast variety of concerns remained in private hands (though it was so often hedged in by regulations, bedeviled by taxes, and opposed by unions that many an executive felt himself a prisoner of government and labor). Nor was it a free economic order, at least in the old sense of an order in which everybody's economic fortunes were determined by the action of buyers and sellers in the open market, with the government standing aside as Herbert Hoover had tried to stand aside in 1930-1931. It was something between the two: one might call it a repaired and modified form of capitalism in which—to revert to our earlier figure of speech—the government umpires were forever blowing their whistles and rushing onto the field to penalize this player or that, or to pace off a fifteen-yard gain for a hard-pressed team.

Nor, for that matter, was this new order planned in any comprehensive way by Roosevelt and his Brain Trusters. It was a patchwork of measures devised almost without regard for one another; and as a result the American economy, after a few years, was less like a new and statelier mansion than like an old house extensively remodeled, with a new bit of roofing here, a new wing there, new supports under part of the flooring, and a greatly enlarged staff of servants.

Nor did the new order seem to work particularly well. Full disaster had been averted, it is true, and many people long forsaken by fortune had been given new hope. But it was not until the shadows of war began to deepen, and the United States began to arm feverishly for defense, that this new, hybrid American system began really to work.

However, the grim decade of the nineteen-thirties had left a num-

ber of legacies to the American people, of major importance to their future.

The first of these, and the most fundamental, was the idea that the fortunes of individual Americans are interlocked, that they are "all in the same boat." Never before had a national crisis so challenged the ability of economists, sociologists, students of government, and intelligent citizens generally to find out what was actually happening to their fellow countrymen, how they were variously affected by the actions of bankers in Wall Street, manufacturers in Detroit, legislators and bureaucrats in Washington, and how they lived from day to day. During the years 1930 and 1931, when I had been at work on *Only Yesterday*, an informal history of the United States in the nineteen-twenties, my best sources had been the daily papers and magazines of the period; the books of reportage or appraisal which I really needed to consult could have been ranged on a single shelf. In 1939 I wrote a similar book about the nineteen-thirties, *Since Yesterday*; this time, the books on which I might have drawn, had I had the time and energy, would have filled a large library building, so diligently had the pollsters, social analysts, economic statisticians, and authors of assorted surveys been examining the conditions of their contemporaries. And there was manifest, too, among great numbers of men and women, including not only scholars but comparatively untutored folk, the gradual expansion of a sort of half-mystical faith in the American people—a faith all the more striking because the ability of these people to order their affairs successfully was being so gravely tested. It was as if men and women of different circumstances and antecedents, having discovered that their fates were interdependent, had begun to regard one another with a fresh understanding and had found that on the whole they liked one another. Contenting as this faith did with the political and social frictions of the times, it was hard to measure and its durability was uncertain. But I wonder if a good many readers of these pages, recalling, let us say, their reactions to the New York World's Fair of 1939, will not remember feeling—as they enjoyed the fountains, the illuminated trees, the fireworks, the artificial waterfalls streaming down the sides of

buildings, the imaginative General Motors Futurama, the girls swimming to waltz time at the Aquacade, and the brightly colored side-shows—a sort of inner exhilaration which, if it had found words, might have said something like this: "All these things, the beautiful and the silly alike, reflect in their various ways the one hundred and forty million people of this land, friendly, inventive, hopeful people who have found that their lot is cast together."

Two more legacies of the nineteen-thirties were based upon the first one and supplemented it. One was the idea that if individual Americans are in deep trouble, it is the job of the rest of the people, through their government, to come to their aid. The other was that it is their job, again through their government, to see that there is never another Great Depression. Each of these ideas, born in travail and fiercely contested for years, was by 1940 implicitly accepted by the vast majority. Whether they could be lived up to remained to be seen.