

## Chapter 31

# The Response to the Economic Collapse

*How did the federal government respond to the economic collapse that began in 1929?*

### 31.1 Introduction

By 1932, Americans all across the country were feeling the pain of the economic collapse triggered by the stock market crash. Desperate job seekers wandered from town to town in a fruitless quest for work. Others sold apples or shined shoes to earn whatever they could. In Portland, Oregon, an unemployed veteran of World War I named Walter Waters decided it was time to take action. He persuaded a group of former soldiers to launch a protest march—all the way to Washington, D.C. There, Waters hoped to persuade Congress to accelerate payment of a long-promised bonus to World War I veterans.

The promise of a bonus for veterans dated back to 1924. Congress had voted to pay former soldiers a dollar for every day they had served during the war, plus an extra 25 cents for every day spent overseas. There was a catch, however. The government would not pay the bonus until 1945—the money was to be a retirement benefit. Veterans argued that they needed the money sooner to help them through the hard times. Members of Congress sympathetic to the cause crafted a bill that would pay the bonus right away.

In May 1932, Waters and about 250 other veterans boarded a freight train in Portland and headed east. They rode in empty boxcars and cattle cars, switching trains in various towns. Waters insisted on keeping military order: “No panhandling, no liquor, no radical talk,” he told his men. The group’s numbers swelled as other unemployed veterans joined this **Bonus Army**. Supportive townspeople provided them food, while some local officials, fearing violence, hurried them on their way.

At the end of May, Waters’s group reached the nation’s capital. By then newspapers had picked up the story, convincing veterans throughout the country to join the cause. District police set up camp for the veterans in the fields along the Anacostia River, a few blocks from the Capitol building. The veterans vowed to remain in the capital until the bonus bill was passed.



In 1932, thousands of war veterans joined the Bonus Army to demand that the government help them survive the hard times. Near the Capitol, members of the Bonus Army built a camp out of old lumber, packing boxes, scrap metal, and straw. They maintained strict discipline and required newcomers to prove they were veterans.

### 31.2 Ideological Responses to the Economic Crisis

Members of the Bonus Army continued to pour into Washington for weeks. By early summer, more than 12,000 had arrived. The scraggly veterans, many with families, gave a human face to the nation's hard times. Many Americans wondered how the government would respond—not only to the frustrated veterans, but also to the economic crisis they represented.

Politicians and other public figures proposed various ways to deal with the country's economic problems. People's ideologies shaped their suggestions. An **ideology** is a set of basic ideas, beliefs, and values that form the basis of a social, economic, or political philosophy or program. While running for president in 1932, Franklin Roosevelt used a metaphor to explain three ideological responses to the Depression. "Say that civilization is a tree which, as it grows, continually produces rot and dead wood," he began. "The radical says: 'Cut it down.' The conservative says: 'Don't touch it.' The liberal compromises: 'Let's prune, so that we lose neither the old trunk nor the new branches.'"

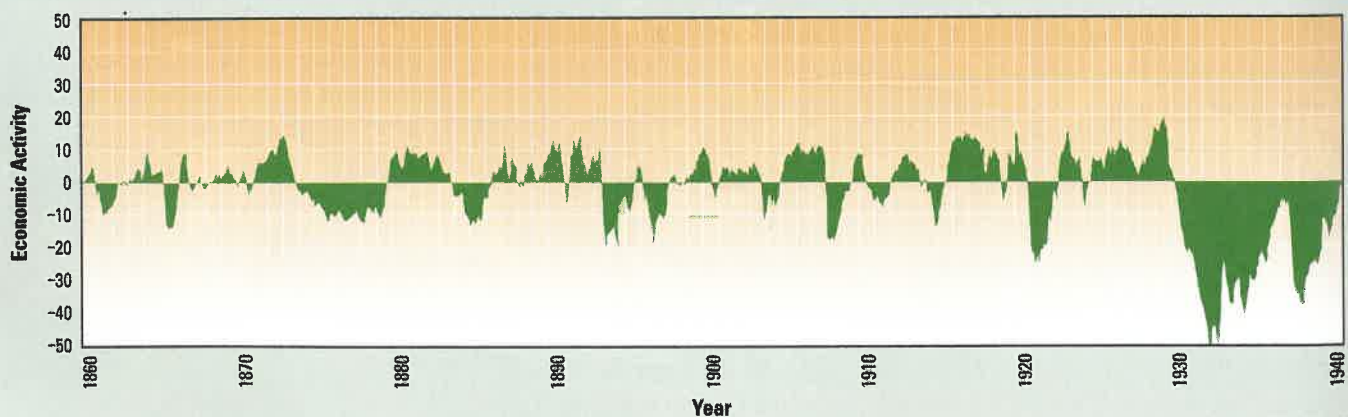
**The Conservative Response: Let the Economy Stabilize** A **conservative** is someone who cherishes and seeks to preserve traditional customs and values. For conservatives in the 1930s, these values included self-reliance, individual responsibility, and personal liberty. Conservatives tend to prefer the **status quo**, or current conditions, to abrupt changes. They accept change, but only in moderation. Depression-era conservatives opposed large governmental efforts to effect change, which they felt challenged their values.

As the Depression worsened, conservatives resisted calls for radical changes to the free enterprise system. Left alone, they argued, the economy would soon stabilize and then begin to improve.

Some economists supported conservatives' hands-off approach. They insisted that economic downturns and periods of low economic activity—known as panics—were normal. They were part of the **business cycle**, a pattern in which economic growth is followed by decline, panic, and finally recovery. These lows were natural in a capitalist economy, economists argued.

This graph shows how the business cycle repeats itself over time. The cycle begins with a period of economic expansion. In time, economic activity peaks, and then the business cycle moves into a period of decline. After the downturn reaches its lowest point, a new period of economic expansion begins.

U.S. Economic Activity, 1860–1940



They noted that good times followed even the severe panics of the 1870s and 1890s. The economy would also recover from this severe period.

At the start of the Depression, many Americans shared this outlook. Most preferred to suffer in silence rather than admit they needed help. But as the Depression progressed, people ran short of food and fuel. Many had no choice but to seek aid. Conservatives insisted that charities take on the growing task of providing basic necessities to the needy. If government had to step in, they argued, it should be local governments' responsibility to care for their own.

**The Liberal Response: The Government Must Help** A **liberal** is someone who is committed to the expansion of liberty. In the 1800s, liberals had focused on protecting individual liberty from the heavy hand of government. They favored limited government that left individuals free to exercise their rights and pursue happiness in their own way. To liberals, the government that governed the least governed the best.

With the rise of big business, liberals' views began to change. They realized that limited government could offer individuals little protection from dangerous working conditions, price-fixing monopolies, or unsafe food and drugs. By the start of the Progressive Era, many liberals believed that the government should play a role in regulating economic affairs. As the Depression set in, liberals looked to the government to expand its powers once again to protect individual liberty. However, now they defined liberty as freedom from hunger and poverty.

Liberals proposed several responses to the economic crisis. First, they called for increased spending on **public works**. These government-funded construction projects provide for such local needs as roads, bridges, and dams. They would, liberals argued, create jobs for the unemployed. Next, liberals suggested placing new taxes on corporations and the wealthy to raise money for **social welfare** programs. Such programs provide aid to those in need. They effectively redistributed money from the "haves" in a society to the "have-nots." Finally, liberals called on the government to work closely with businesses to aid in their recovery. In short, they urged the government to take on an active role within the framework of the capitalist system.

**The Radical Response: Capitalism Must Go** A **radical** is someone who wants to make sweeping social, political, or economic changes in a society. Radicals often have little patience for the status quo. They may seek change by democratic means or through revolution.

By the 1930s, both socialists and communists were attracting supporters with their calls for radical change. Communists, for example, proposed doing away with the market economy altogether. They wanted to replace capitalism with communism. Under that system, economic decisions would move out of the marketplace and into the hands of government planners. A totally planned economy would take the place of free markets. Wealth would be distributed to people according to their need.

Radicals viewed events like the Bonus Army protest as opportunities to spread their ideas. They encouraged working-class people to rise up against the "greedy capitalists." As the Depression wore on, such ideas began to appeal to a growing number of disillusioned Americans.



In 1931, construction began on a massive public works project: building Boulder (later renamed Hoover) Dam across the Colorado River. The government employed 21,000 workers, who completed the dam in just five years. Liberals favored increasing government spending on such projects to create jobs for the unemployed.



Here, Herbert Hoover accepts the Republican nomination for reelection in 1932. At first, he had no plans to campaign. However, as his troubles mounted, Hoover could not remain idle. By early October, he decided to take to the road in a campaign tour that included 200 speeches.

### 31.3 Hoover's Conservative Response to Hard Times

President Herbert Hoover strongly believed in self-reliance, rugged individualism, and hard work. His own life reflected these conservative principles. Orphaned at age nine, Hoover became a millionaire and a respected public official through his own talents and determination. Hoover was not oblivious to people's suffering. But like most conservatives, he did not believe that the federal government should give aid to the needy. Federal relief, he worried, would undermine self-reliance and encourage people to become dependent on government handouts. Instead, he supported "mutual self-help through voluntary giving."

**A Cautious Approach: Limited Government Intervention** Like many economists, Hoover viewed the American economy as basically sound. He felt that his job was to generate optimism and restore confidence. Optimistic business owners, he believed, would expand production. Confident consumers would spend more money. The economy would then bounce back without direct government involvement. Meanwhile, Hoover looked to local communities, mainly through churches and private charities, to take care of their citizens.

Hoover's conservative approach made sense at first. In time, however, even he could see that this depression was different from past ones. For example, unemployment continued to increase. So did the number of **Hoovervilles**—shantytowns that homeless Americans in many cities built out of crude cardboard and tarpaper. While people in cities went hungry, desperate farmers tried to boost crop prices by causing food shortages. However, it was the sharp increase in bank failures that finally caused Hoover to rethink the government's role in an economic crisis.

To deal with failing banks, Hoover at first tried his standard approach of voluntary cooperation. He prodded the owners of healthy banks to loan money to banks that were suffering. When this cooperative venture did not work, Hoover reluctantly modified his policy. In 1932, he supported the creation of a government agency to save failing banks and businesses. That agency, called the **Reconstruction Finance Corporation (RFC)**, issued government loans to banks, railroads, and other big businesses.

Hoover hoped RFC loans would stimulate economic growth. Once companies began hiring again, he believed, prosperity would trickle down through the economy to those most in need. To his credit, the number of bank failures declined greatly that year. Still, conservatives criticized Hoover for putting the government in the business of saving banks. At the same time, liberals criticized what they called his **trickle-down theory** of helping the needy. The poor, they argued, could not wait for money to seep down to them from expanding businesses. They needed direct relief right away.

With a presidential election coming in the fall, Hoover knew he had to do more. In July 1932, he supported a bill authorizing the RFC to loan money to states that no longer had enough resources to help the needy. The bill also allowed the RFC to finance a variety of public works projects. This legislation stopped just short of offering direct federal relief to those in need, but it was a giant step in that direction. Hoover signed the bill into law just as the issue of the Bonus Army was about to boil over.

**Hoover Battles the Bonus Army** When the Bonus Army veterans first arrived in Washington, D.C., President Hoover had chosen to ignore them, hoping they would go away. They did not. However, on June 17, 1932, Congress defeated the bill that called for paying the bonuses immediately. At that point, a few thousand weary veterans gave up and headed home. But close to 10,000 Bonus Army marchers refused to leave. Walter Waters vowed to continue his protest until 1945 if necessary.

Fearful that the remaining veterans might become violent, Hoover ordered their removal. On July 28, troops used tear gas and tanks to push the veterans out of Washington. The next day, Hoover told reporters, "A challenge to the authority of the United States Government has been met, swiftly and firmly." However, reports of tanks chasing unarmed veterans out of the capital appalled many Americans.

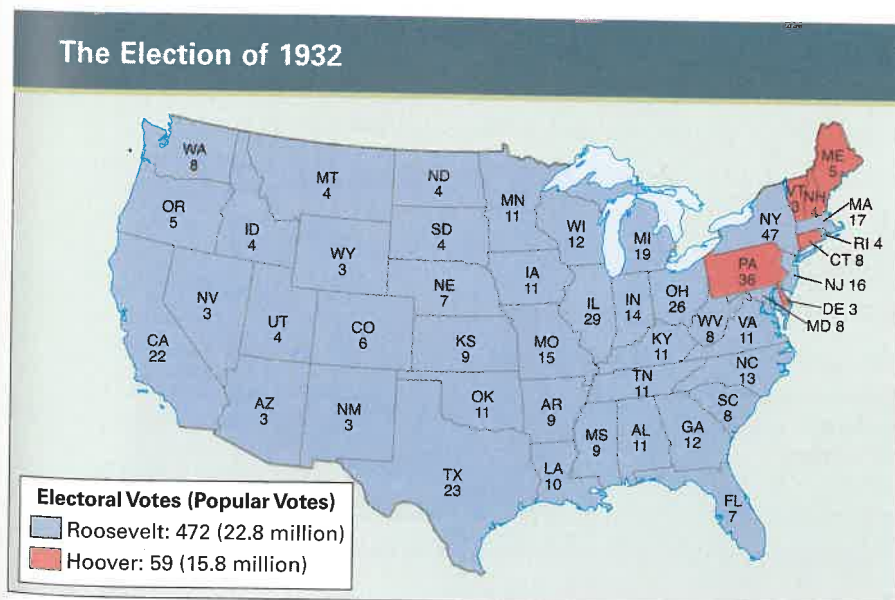
**Roosevelt Calls for a New Deal: The Election of 1932** That summer, Democrats nominated New York governor Franklin Delano Roosevelt (FDR) to be their presidential candidate. Like his distant cousin Theodore Roosevelt, FDR had a charming, magnetic personality. As he campaigned across the country, he radiated confidence in his ability to take charge of the economic crisis and lead the country to better times.

In accepting the Democratic nomination, Roosevelt promised "a new deal for the American people." While he did not yet make the details clear, FDR pledged, with this **New Deal**, to do whatever was needed to help the needy and promote recovery. "The country needs bold, persistent experimentation," he said. "It is common sense to take a method and try it. If it fails, admit it frankly and try another. But above all, try something."

A gloomy Hoover warned Americans that a Roosevelt presidency could bring disaster. Federal meddling in the economy, he claimed, would stifle free enterprise. Despite Hoover's dire warnings, Roosevelt won a landslide victory. He tallied 472 electoral votes to Hoover's 59, with a margin of victory of more than 7 million popular votes.



In 1932, Franklin Roosevelt launched an ambitious campaign tour of the country by train. Roosevelt's efforts paid off when he won the election by a landslide. Here, Hoover and Roosevelt are travelling to Roosevelt's inauguration. There, Roosevelt delivers a speech reassuring the American people that "the only thing we have to fear is fear itself."



Roosevelt swept to victory in 1932 in most states. He attracted voters with his promise of a "new deal for the American people."

## Laws Enacted in FDR's First Hundred Days, March 9 to June 16, 1933

During the First Hundred Days of FDR's administration, Congress passed a record number of laws. The most important of these early New Deal measures appear below.

### March 9

The *Emergency Banking Act* gave the federal government broad power to help reopen the nation's banks.

### March 22

The *Beer-Wine Revenue Act* legalized the sale of beer and wine.

### March 31

The *Reforestation Relief Act* established the Civilian Conservation Corps, which would provide work for 250,000 young men that year.

### May 12

The *Federal Emergency Relief Act* granted money to states for relief projects to help the unemployed.

### May 12

The *Agricultural Adjustment Act* set prices for farm crops while trying to reduce overproduction.

### May 12

The *Tennessee Valley Authority* funded construction of flood control dams and power plants in Tennessee Valley states.

### May 27

The *Federal Securities Act* regulated the sale of stocks and bonds.

### June 13

The *Home Owners Refinancing Act* provided aid to families in danger of losing their homes.

### June 16

The *National Industrial Recovery Act* established the Public Works Administration to supervise building projects and the National Recovery Administration to encourage fair business practices.

### June 16

The *Banking Act of 1933* established the Federal Deposit Insurance Corporation to insure depositors from losses when banks failed.



### 31.4 FDR Launches the New Deal's First Hundred Days

Franklin D. Roosevelt took office as president in March 1933. In his inaugural speech, he told Americans,

This great nation will endure as it has endured, will revive and will prosper. So, first of all, let me assert my firm belief that the only thing we have to fear is fear itself—nameless, unreasoning, unjustified terror which paralyzes needed efforts to convert retreat into advance.

FDR presented Congress with a broad array of measures focusing on relief, recovery, and reform. Lawmakers dispensed with their usual lengthy debates to enact a record number of bills in just over three months. For that reason, this session of Congress became known as the **First Hundred Days**.

The relief measures that Congress passed during this remarkable session were intended to help the unemployed. For example, the Civilian Conservation Corps put young jobless men to work maintaining forests and planting trees. The recovery measures were designed to reverse the downward slide of the economy. One such law, the Agricultural Adjustment Act, tried to make farming profitable again by reducing overproduction and raising crop prices. The reform legislation passed in this session focused mainly on the financial sector. The Truth-in-Securities Act, for instance, required companies issuing stock to provide full and accurate information to investors.

As Congress finished its work, no one could say how well the new laws would work. Still, the whirlwind of activity that launched FDR's New Deal brought fresh hope to a worried nation.

#### Summary

**Americans were anything but united in their responses to the Great Depression. Each group's political ideology shaped its approach. The election of 1932 presented voters with a choice between Republican president Herbert Hoover's conservative approach and Democratic challenger Franklin Roosevelt's promise of a New Deal.**

**The conservative response** Conservatives thought the government should leave the economy alone. They believed that the economy would eventually stabilize itself.

**The liberal response** Liberals thought the government should play a more active role in the economy. They also believed the government should step in to help those in need.

**The radical response** Radicals advocated abolishing the free enterprise system. They believed that the government should plan economic activity and distribute wealth according to need.

**Herbert Hoover** At first, President Hoover relied on voluntary cooperation to ease the Depression's effects. As conditions worsened, Hoover gave government a limited role in the economy. His Reconstruction Finance Corporation, however, failed to revive the economy.

**Franklin D. Roosevelt** After his landslide victory in 1932, Roosevelt presented Congress with a variety of New Deal measures. During the First Hundred Days of his administration, Congress enacted many programs to provide relief, promote recovery, and enact reforms.