There are three main theories as to what caused the Great Depression:

**Keynesian Explanation**
- The Great Depression was caused primarily by a fall in total demand
- The decline in demand was so severe that adequate demand could be restored only by large increases in government spending

**International Explanation**
- The Americans depression was part of a larger global depression
- The depression was particularly severe in the United States because the Federal Reserve System was obligated to follow the rules of the gold standard

**Monetarist Explanation**
- The Great Depression may have originated in a fall in total demand, but its length and severity resulted primarily from the unwillingness of the Federal Reserve System to prevent bank failure and maintain a large enough supply of money
During most of the 1920s, the business cycle was in peak
- Increase in consumer purchases of homes and durable goods
- Towns and cities grew rapidly
- State and local governments spent money to provide roads, sidewalks, water and sewage services
- Homes were connected to telephone and electricity services
- Consumer and government spending created plentiful, high-paying jobs

In the late 1920s, the economy started to enter a mild recession
- House and automobile sales decreased
- Governments had completed most of their infrastructure projects
- Total spending in the economy was falling
- Business firms began to cut production
- The stock market crash in October signaled to shareholders that profits would fall
- Wealth decreased and the ability of consumers to meet credit obligations was diminished

Most people thought that the USA was experiencing a recession and that prosperity would return
But . . .
- Demand stayed low
- Layoffs continued and increased in some sectors
- Many businesses went bankrupt
- Banks began to fail in the early 1930s; wiping out personal savings and further decreasing demand
- Government relief funds ran out
- Foreclosures increased along with homelessness, hunger, and crime
Herbert Hoover: Pioneer for the New Deal

1. Finally, Hoover voted to withdraw $2.25 billion to start works projects to alleviate the suffering of the depression. The Hoover Dam of the Colorado River was one such project.

2. The Muscle Shoals Bill, which was designed to dam the Tennessee River and was ultimately embraced by the Tennessee Valley Authority, was vetoed by Hoover.

3. Early in 1932, Congress, responding to Hoover’s appeal, established the Reconstruction Finance Corporation (RFC), which became a government lending bank. This was a large step for Hoover away from laissez faire policies and toward policies the Democrats (FDR) would later employ. However, giant corporations were the ones that benefited most from this, and the RFC was another one of the targets of Hoover’s critics.

4. In 1932, Congress passed the Norris-La Guardia Anti-Injunction Act, which outlawed anti-union contracts and forbade the federal courts to issue injunctions to restrain strikes, boycotts, and peaceful picketing (this was good for unions).

5. Remember, that in past depressions, the American public was often forced to “sweat it out,” not wait for government help. The trend was changing at this point, forced to do so by the Depression. Hoover’s “Prosperity is just around the corner” and belief in the values of rugged individualism was defeated by continued desperation.
Franklin D. Roosevelt: The real New Deal

1. FDR and the Three R’s: Relief, Recovery, and Reform

Relief was for the right-now (food, shelter), recovery was for a year or so to get out of the Depression, reform was to ensure it wouldn't happen again. Congress was controlled by far by the Democrats. Anything FDR wanted passed, was passed. FDR’s first "Hundred Days" saw a shipload of bills passed into law. The laws are often called the "Alphabet Soup" because they're a dizziness collection of acronyms, like the TVA, CCC, WPA, PWA, and on and on. The New Deal, FDR's plan for fighting the Great Depression, was under way.

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FDR was willing to use government money to help those in need. One of his main weapons was to "prime the pump", or use federal money on programs in hopes that it would jump start the economy to run on its own.

Likely the most popular New Deal program was the **Civilian Conservation Corps (CCC)**. In the CCC, young men were hired to work in the national forests. They lived in camps like boy scouts and did things like clearing land, blazing trails, planting trees, draining swamps, etc. The CCC provided some experience, some adventure, and a wage to send home to the folks—things healthy young men couldn't turn down.

The **Federal Relief Administration (FERA)** sought relief in the form of the dole (government hand-outs). Harry L. Hopkins was placed in charge of the administration and $3 billion was given to the states for doling out. He proudly said they'd spend, tax, and get themselves reelected. Others saw this scheme as simply taking one person's money in taxes and giving it to another person to buy his vote.

Unemployment was a lingering problem. In hopes of fighting it, FDR started the **Civil Works Administration (CWA)**. It was to provide temporary jobs to see folks through a short period (winter). Finding jobs was hard to do and many were just made-up jobs, called "boondoggling." Critics saw the frequent result of a boondoggle job - just leaning-on-a-shovel and while collecting taxpayer money.

The **Home Owners' Loan Corporation (HOLC)** refinanced people's home loans at lower interest rates.

**Recovery** was about turning the economy around. One program that tried to help during the recovery time period was the **AAA (Agricultural Adjustment Act)**. This limited farm production to help raise prices, which was paid for by taxing food processors. But, in 1936 it was declared unconstitutional by the Supreme Court. The **Agricultural Adjustment Act (AAA)** offered low interest loans to farmers.

The **National Industrial Recovery Act (NIRA)** was a big help with this. It was published by Congress in 1933. To cut unemployment rates, the NIRA created the **PWA**, which was a major program of public works. From 1933-1935 the PWA spent 3.3 billion with private companies to build 34,599 projects, some of which were pretty large. Despite all the efforts, however, it took a war to bring the economy back to life.

**Reform**ing the country was the last thing to be done. It's goal was to make sure that the U.S.A. never fell into another depression.

The **Glass-Steagall Banking Reform Act** set up the **Federal Deposit Insurance Corporation (FDIC)**. It insured people's money in the bank up to $5,000. There was no need to fear losing one's money in the banks anymore. In fear of paper assets, people were hoarding gold. FDR took the dollar off the gold standard, ordered people to relinquish gold in exchange for paper money. FDR wanted to create inflation. This would make it easier for debtors to pay off their debts (since the money had less value and was thus easier to get). Those who'd given the loans were not happy to get back not-so-valuable money. To create inflation, FDR ordered the Treasury to buy up gold at increasingly higher prices. $35 per once became the norm for 40 years. This meant more paper money in circulation, which is less valuable than gold, and did cause inflation. Critics said FDR was creating "baloney" money. FDR did backtrack and, in 1934, put the U.S. back on the gold standard partially (when trading with other nations)
Generally speaking… Congress supported DFR, but The Supreme Court took its stance from a legal viewpoint and in 1935 it effectively declared the National Recovery Administration (NRA) illegal.

In the following year it declared the Agricultural Adjustment Act (AAA) unconstitutional thus killing off the AAA. The point made by the Supreme Court was that any efforts made to help farmers etc. should come at a state level and not federal level and that these parts of the New Deal went against the powers given to the states by the Constitution.

11 out of 16 of the Alphabet Laws were decreed unconstitutional in cases heard by the Supreme Court. The argument of the Supreme Court was that Roosevelt had tried to impose the power of the federal government on state governments – and this was unconstitutional. If a state deemed that there was a crisis is farming then it had the right to tackle this crisis as laid down by the Constitution but the federal government did not have the right to impose its decisions onto states.
Besides the Supreme Court…opposition included individuals as well. Some opposed him because they didn’t feel the New Deal was enough. The most famous opponent of the New Deal was Huey Long, a Senator from Louisiana. He criticized Roosevelt for not doing enough for the poor. His alternative to the New Deal was called "Share Our Wealth". By the standards of the time, Long was politically left of center and his unpopularity was such that he had to surround himself with a gang of ‘heavies’ to protect him – and to deal with any hecklers he might come across at public meetings. Long promised to confiscate any personal fortune over $3 million and that he would use this money to give each family in America between $4000 to $5000 so that they could buy a home and a car. Long also promised a national minimum wage, old age pensions and cheap food for the poor. Long also promised to make all education free in America. Within Louisiana, Long essentially ran the state. Opponents were suitably dealt with; local elections were fixed and the police were bribed. In the state he was known as the "Kingfish". However, he had his enemies and in 1935 he was killed.

Another vocal opponent of Roosevelt was a Catholic priest called Charles Coughlin. He set up the National Union for Justice and used his weekly radio program to attack Roosevelt for being "anti-God". Coughlin wanted the less well off to be paid what he described as a "fair wage". He teamed up with Frances Townsend who also opposed the New Deal. Townsend wanted the federal government to give all citizens aged 60 and above $200 a month to be financed by a 2% sales tax. These 2 men allied themselves to Gerald Smith, Huey Long’s successor.

Opposition from the upper class…though Roosevelt had enormous success in the elections of 1936, 1940 and 1944, this success is somewhat disguised by the structure of America’s elections whereby a presidential candidate can win a state with the bare majority of votes but win all of what are called Electoral College seats for that state. One example of a large voting block opposed to the New Deal was the wealthy class. They were basically horrified. To finance his first New Deal, Roosevelt had introduced higher taxes for the rich. They felt that he had betrayed his class and he was expelled from his social club for letting down "his people".