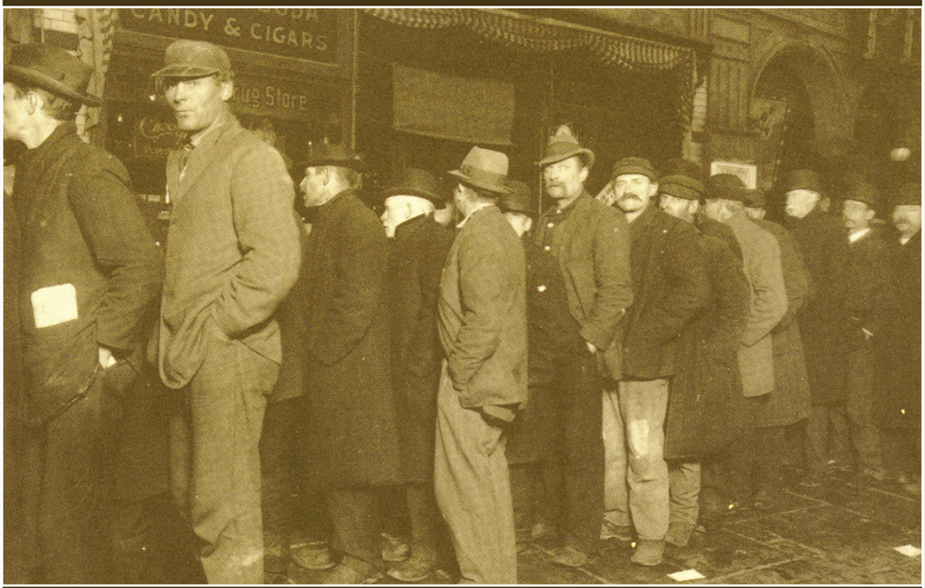
THE DEPRESSION DECADE FROM NEW ERA THROUGH NEW DEAL 1929-1941



Broadus Mitchell

THE · ECONOMIC HISTORY · OF · THE UNITED · STATES

Depression Decade

FROM NEW ERA THROUGH NEW DEAL

1929–1941

THE ECONOMIC HISTORY OF THE UNITED STATES
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DEPRESSION DECADE

From New Era through New Deal
1929–1941

By BROADUS MITCHELL

VOLUME IX

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Foreword

WHEN this series of nine volumes on the economic history of the United States was first conceived, the nation's economy had reached a critical stage in its development. Although the shock of the depression of 1929 had been partially absorbed, the sense of bewilderment which it produced had not yet vanished, and the suffering and the bitterness of its first years were being transformed into less substantial, though still anguished, memories. Reform measures, either in operation or proposed, were being actively debated, but with less sense of urgency than earlier.

To the Editors of this series a fresh consideration of America's economic history was justified by more than the experiences of the recent past or the obscurity of the future. Rich contributions to the literature of American history had been made through cooperative series dealing with the political, social, and cultural aspects of American life. Numerous single-volume surveys of the country's economic development had been written. But, as late as the end of the fourth decade of the twentieth century, the world's foremost economic power had not yet produced an integrated, full-length, and authoritative treatment of its own economic history.

Scholarly concern with American economic history has been constantly growing during the past half century, and chairs of economic history have been established in leading universities. A more profound understanding of the role of economic forces in the nation's history has not only been developed by historians and economists, but has also won some measure of popular acceptance. The earlier thin trickle of monographs has broadened in recent years into a flood of publications. At present, such specialized studies, the many collections of documentary materials, and the mountains of government reports on different facets of American economic life are staggering in their richness and scope.

This series has been planned to utilize these available sources in the preparation of a full-scale, balanced, cooperative, and readable survey of the growth of American economy and of its transformation from one of primitive character to world pre-eminence in industry, trade, and finance. Clearly, in nine volumes all aspects of the nation's economic life cannot be treated fully. But such a series can point the way to new fields of study and treat authoritatively, if not definitively, the main lines of economic development. Further, the series is intended to fill a present need of those professionally concerned with American economic history, to supplement the economic materials now available in general school and college histories of the United States, and finally to provide the lay reader with the fruits of American scholarship. If these objectives are attained, then the efforts which have gone into the creation of this economic history of the United States will have been amply repaid.

Contributors to the series have been chosen who have already established their competence in the particular periods they are to survey here; and they are, of course, solely responsible for the points of view or points of departure they employ. It is not intended that the series represent a school of thought or any one philosophical or theoretical position.

In *Depression Decade* Dr. Broadus Mitchell provides both the historical data and a theoretical approach for an understanding of the character, course, and consequences of the severest economic dislocation that American society has experienced in the twentieth century. The focus of the volume is world-wide, rather than narrowly national, and Dr. Mitchell emphasizes the causal bonds which link World War I and its results with the catastrophic depression of the thirties. In presenting the significance of economic collapse in full detail, he never permits the statistical data to obscure the people who were caught in and lived through the depression.

With good reason, much of *Depression Decade* is concerned with the role of government in the economy. After 1929, the state assumed economic and social functions which went far beyond what it had earlier undertaken during years of peace. Dr. Mitchell describes the significant transformations in the realities of a "free enterprise" economy produced by new state functions and purposes. His account of the response of the Hoover administration to the depression underlines the kinship between its economic policies and many phases of the New Deal. The financial, banking, agricultural, and labor policies and reforms of the Roosevelt administrations, the National Recovery Administration, and the public works and social security programs are treated fully and critically. Dr. Mitchell calls attention to the contradictions and weaknesses in the New Deal policies, evaluates their ameliorative and recovery accomplishments, and concludes, finally, that the Roosevelt administrations did not come to grips with the central problems of American capitalism. Only World War II, he maintains, could put an end to large-scale unemployment.

Although some readers may question Dr. Mitchell's major conclusions, they are not likely to deny his success in avoiding the pitfalls of passion and prejudice frequently inspired by the developments with which he deals. Distinguished by clarity, balance, and critical acumen, *Depression Decade* is a lively, dispassionate treatment of a complex, bewildering, and debated period of American economic history.

THE EDITORS.

Preface

THE years of our national economic life here described were crowded with emotion and event. They registered the crash from 1929 superconfidence and the descent into the depression—at first dismaying, then disheartening, then desperate. Came hope in a New Deal, with new men and new measures. Though some had severe misgivings, most accepted eagerly the experiments of government to meet the emergency. As we shall see, few of these devices were altogther as novel as critics would have had the country believe; some were extensions of proposals made by the Hoover administration, others were as old as distress of the public purse. But all were invested with urgency and drama. Moreover, the plight of the American economy was linked with that of the world, both as cause and as effect.

Promising improvement turned to woeful relapse in 1937, and recurrence of hard times brought reversal of certain policies and renewal of others. Despite all efforts, millions of unemployed remained a national reproach. Then loomed war—first in local conflicts in Europe, Africa, and Asia, next in foreign rearmament orders, followed by the outbreak of the general struggle and leading us to a defense program, to endeavors to make ourselves an "arsenal of democracy," to the attack on Pearl Harbor and our entry as a frank belligerent.

This "rush of history" means that a brief account, unless it is to be a mere chronology, must select the more significant events and developments for scrutiny. Only in this way is interpretation possible. The most significant feature of this depression period was the unexampled intervention of the federal government in the economic life of the country. Measures of relief and reform increased in variety and scope. The depression was proof that the self-sufficiency of the economy had broken down. Few economic forces continued independent of government assistance or correction. Autonomous economic developments were in a peculiar degree suspended. Therefore emphasis has been given to public policy as expressed in legislation and administration.

This being a volume in a series covering the whole of American economic experience, it seemed proper to take time, here and there, to relate the period to earlier history. This procedure was suggested by the fact that the volume, coming almost up to the present, necessarily lacked the wisdom of hindsight. While the outbreak of war in Europe in September, 1939, foretold the end of business stagnation, the period of defense production belongs in an account of the depression in the United States; the story has been stopped at the attack of the Japanese on Pearl Harbor.

B. M.

New York City
August, 1947

Depression Decade

FROM NEW ERA THROUGH NEW DEAL

1929–1941

PROLOGUE

World Economy between Wars

THE depression following 1929 was world wide. The United States made contribution to the causes as to the course of the disturbance, which in turn reacted in every part upon this country. What happened in America becomes clearer on looking at the picture of continents in distress. This will serve to put the experiences in America in perspective. Incidentally, it will appear that a number of devices commonly regarded as American improvisations were adaptations of policies used elsewhere.

Economic processes are continuous. The period from World War I to World War II was integral. We are apt to think of the two decades from Versailles to Warsaw as distinct, broken at the stock market crash of 1929. But American ebullience of the "New Economic Era," 1921–1929, had no counterpart in Europe. There the effort until about 1925 was to restore war losses; when this was more or less achieved, the next four years went into tenuous and doomed attempts to maintain the newly established equilibrium. However, even in America the two dreams, good and bad, as pronounced by Joseph, were one.

Though many of the social dislocations of 1919–1939 were due to World War I, certain long-time developments, important for this story, were in train before the war. Industrialism was spreading and maturing. Not only was industry domesticated in the United States, Germany, northern France, Belgium, and Japan, but it was getting a foothold in countries producing raw materials and hitherto dependent on others for manufactured goods, such as China, India, and Australia. In the older established centers, and in some of the newer, large-scale methods and "rationalization" were again stepping up capacity much as the application of power machinery had done in the first place. Further, petroleum and electricity were taking the place of coal in the generation of power.

This evolution operated to the relative hurt of Britain as "the workshop of the world." Her pre-eminence had been built on colonial empire, merchant marine, insular position, early start, and coal. But Germany, in technical skill and selling success, and the United States in both proficiency and magnitude of industry, were surpassing her. This development meant two things: (1) Britain was left weaker after the war, and was unable to take industrial leadership or impose European peace as she had after the Napoleonic struggles a century earlier; (2) industrial competition and economic nationalism were taking the place of the world division of labor which Adam Smith had projected and Cobden had tried to realize in Britain's interest.

These tendencies were on the side of production. Others were on the side of consumption. The rate of population growth in developed countries was declining, while increasing urbanization was adding to the standard of living. At a time when demand was preparing to shift from heavy clothing and cereals to lighter fabrics and vegetables, fruits, and meat, staple agriculture, worse luck, was further endangered by soil chemistry, mechanical power, improvements in transportation, and development of synthetics such as rayon.

These trends were intensified by World War I, but are not to be charged to its account. The war itself had to answer for enough. Four years of absorbed destruction of life and productive resources, with moral devastation, and redrawing of political and economic boundaries, amounted to a revolution in most human spheres. Probably World War I should be called instead a devolution, because, except in Russia, it did not lead to a higher plane of achievement, but rather to frustrated attempts to revive old institutions, and abortive efforts to create new ones. In technology, the war put the world forward, but in ability to realize upon this advantage, not so. International cooperation, despite the League of Nations, was rendered more difficult through collapse and uncertain repair of currencies, and through competitive trade restrictions. All led on to unchecked economic imperialism and militarism, the introduction to another and bigger war.

The tragedy was made more poignant by moments of seeming alleviation or even of improvement. Such were the subsidence of inflation, England's return to the gold standard, progressive forgiveness of reparations, free flow of loans from victors to vanquished, and a last trial at restoration in the fated World Economic Conference. Each time the dawn was false.

ECONOMIC AFTERMATH OF WAR

The war itself was responsible for what has been termed, with restraint, "disequilibrium." The effects were registered in every field, but particularly in those of production, trade, the exchanges, and finance. The result everywhere was to impair or destroy the self-acting controls, and to substitute emergency management. That the private property, price, and profit system survived where it did was testimony to its toughness or evidence of the unreadiness of collectivist advocates.

The war caused shifts in production. Wheat that had been supplied from Russia must now be grown in the United States, Canada, and Australia. Sugar that had come from Germany and Russia must now be furnished by Java and Cuba. Peace found the world as a whole with overcapacity to produce those things specially required for war, such as cereals, steel, copper, nitrates, oil, rubber, textiles. Destruction of farms and factories in certain areas was not so hurtful in itself, but such loss prolonged swollen production in other parts of the world. The speed with which the physical damage of war is repaired has always been remarkable, even before the industrial era. This time the problem rapidly became not that of lack, but of surplus. The war distributed German patents, developed critical industries in new countries, frightened nations into adopting plans of economic self-sufficiency. At the peace table the old promptings of a scarcity economy still held. But it turned out that reparations, if a penalty upon Germany in the payment, were equally punishment to the Allies in the receipt.

The treaty "Balkanized" Europe, cutting up larger trade areas to ensure political autonomy to peoples supposed to be culturally and racially homogeneous. When America led the way with high protection, the natural temptation of these small states to surround themselves with tariff walls received added impetus. The result was a restriction of markets which became almost a stoppage of international trade as it had been known before. The eagerness to be autarchic seemed in direct proportion to economic incompetence. The slenderer and more specialized the little nation's resources, the more determined was it to shut itself off from its neighbors. Dismemberment of the Austro-Hungarian Empire was bad enough in leaving the parts of a body without a head, but was worse in leaving the head. Vienna, without a body. For much of the period Russia was excluded from world trade; later she alternately spread a blessing by her orders for steel and machinery, and spread a curse by her dumping of wheat.

The most exasperating limitations on international trade—embargoes, quotas, and bilateral barter agreements—followed derangement of the exchanges. During the war all countries except the United States left the gold standard. On the Continent, especially in Germany, Austria, and Russia, followed such inflation as rendered exchange mere guesswork. The Dawes plan of 1924 ended the inflation in Germany. England's return to the gold standard the next year gave assurance in all the countries linked to sterling, and in two years more the depreciation which had continued in Belgium, France, and Poland was stopped by devaluation in those countries. Order in the world's monetary systems, which may be said to have existed by 1928, endured briefly. The drain of gold to the United States and France, consequent on debt payment, fear of other currencies, and attraction of our stock market, had so ill distributed this metal that any shock would knock important countries off the gold standard. England left gold in 1931. Up to this time each country had given at least lip service to the ambition of supporting the exchange value of its own currency. Now commenced the shameless race for depreciation in order to gain export advantage. Countries went on from mere exchange control to the most direct interferences with the flow of trade.

The United States entered the war a net debtor to foreign countries to the extent of $3 billion, and emerged a net creditor, exclusive of Allied debts, to the extent of $6 billion. Britain's foreign assets had fallen by a fourth, and those of France by half; those of Germany had been destroyed. The world's financial center shifted from London to New York. Because of Allied orders, the United States had gained gold during the war; in 1913 she had less than a fourth of the world's gold reserves, but by 1921 she had nearly 40 per cent. Debt payments to the United States increased her share of gold because the high tariff kept out goods. By 1926 the United States and France held more than half the world's monetary gold. In this situation Europe's return to the gold standard, even with drastic devaluation in most instances, was hazardous. The policy of the Federal Reserve Board from the middle twenties was to check the flow of gold to the United States. But a low interest rate, which was the means chosen, contributed to the stock market rise, and that in turn sharply reduced the foreign lending of American investors and increased the receipt of gold in the United States.

Maldistribution of gold in the world rendered capital exporting countries reluctant to make long-term loans and investments abroad. England and France, the great sources of foreign loans before the war, became mere loan brokers. The United States loaned to them long term, they reloaned short term. American supply in combination with the experience of European bankers in parceling out funds might have worked better except for disabilities of ultimate borrowers and of original lender. Germany was not relieved of interest charges by the short-term character of nearly half her loans, and her constant need to reborrow endangered stability. The United States, as world banker, was callow. On critical occasions the nation did not so much shirk its new responsibility as it proved ignorant of what that responsibility was. The United States was capricious, unreliable, unwilling to show the patience and accept the penalties of leadership. Just as Americans withdrew funds, their own and others', for the stock market, so five years later the United States turned national instead of remaining international and wrecked the World Economic Conference. A decade after this conference, when war was closing the scene, the United States swore to make herself the "arsenal of democracy." Perhaps she might have prevented the new war by accepting a world position earlier. Certainly democracy in Europe disappeared as economies crumbled.

GOLD-PLATED STANDARD

Now to mention the most important features of the twenties, and then follow in outline the course of the world depression, 1929–1939.

Say that by 1925 Europe's physical production had been restored to prewar level, and world trade was for the first time greater than in 1913, though the trade of Europe was about 10 per cent below what it had been before the war. After 1925 the indexes of physical recovery continued to rise, though Europe was far from enjoying such a "New Economic Era" as invested America from 1921 to 1929.[1] In the whole period economic improvement was deceptive.

Reparation and Allied debt payments bore no relation to movements of trade and investment. These were political commitments, contracted and imposed in bland indifference to economic requirements and feasibility. The war left Germany prostrate; the punitive peace loaded her with debt while robbing her of means of payment. Germany had an adverse balance of trade; she could get the gold to deliver to her creditors only by borrowing abroad at short term. The pound of flesh cost the spectacular German inflation: the mark fell from prewar parity of 4.2 to the dollar to 60 to the dollar in December, 1921, to 49,000 to the dollar two years later when French and Belgian troops had marched into the Ruhr; stood at 1,100,000 to the dollar in the summer of 1923; and the next year was "pegged" at 4,200,000 million to the dollar. The value of the money was destroyed and exchanges were made in foreign currencies and in terms of staple commodities.

This inflation was brought to an end by the Dawes plan, 1924; Germany returned to the gold standard with the reichsmark at the old parity. But this return was made possible only by means of the Dawes loan of 800 million gold marks to help Germany to pay the first annuity. Further, foreign commissioners were appointed for state railways and the Reichsbank, and creditors had the responsibility of translating marks into their own currencies. The Young plan, 1929, tried to cure defects in the Dawes plan and reduced the payments during the period of sixty years for which reparations were to run. Someone has said, in effect, that the Dawes plan made reparations no longer preposterous, but merely ridiculous, while the Young plan changed them to impossible. The economic drain on Germany for a dozen years, until the Hoover moratorium ended reparations and all other European debt payments, bore peculiar responsibility for dragging the world into the long depression.

Restoration of the gold standard in Europe was incomplete except in Britain, and there the honesty of the action was more danger-

[1] League of Nations, *Report on Enquiry into Course and Phases of the Present Economic Depression,* in League of Nations Commission of Enquiry for European Union, C. 284. M 134. 1931. VII. Ser. L. o. N. P. 1931. VII. 3 (Geneva: 1931), pp. 128–143.

ous than the dissembling practiced elsewhere. Britain returned to the gold standard in April, 1925, at the old parity, because of her sense of obligation as financial center, but the pound was overvalued. The gold reserve of the Bank of England now had to support a banking world grown so heavy that it might at any time crush the Atlas. The Cunliffe Committee on Currency and Foreign Exchanges after the War, which made its final report in 1919, is excused for insisting upon Britain's early return to the gold standard at the old parity, because at that time the economic effects of the war in inflation and in distortions of trade were not apparent. But those who followed might have recognized that the business of the world was too relaxed to be braced in that fashion.

Other countries which returned to the gold standard admitted in one way or another that their action was partial. They borrowed abroad for the purpose, or sharply devalued their currencies, or both. The international gold standard was reinvoked rather than revived. Circulation of gold coins disappeared, and countries took pains to avoid internal conversion of their paper currencies into gold. Such measures afforded illusory protection against the real dangers. These lay in the maldistribution of gold throughout the world and failure of this condition to correct itself because huge blocks of debt were political rather than commercial. Deflation was hindered by price and wage rigidities introduced by cartels and unions. While the gold-exchange standard economized the metal, it laid the scanty central hoards open to raids from countries which fell into difficulties. It is not surprising, in the uncertainty of the times and under the prevailing pressures, that the new gold values assigned to currencies were in some cases too high and in others too low. But this made maintenance of the international exchange system awkward and tentative. Also, though men might pretend that this refurbished gold standard would control in the old automatic fashion, it was clear that this was no longer possible, since gold itself had been subjected to deliberate management.[2] Demonetization of silver combined with other factors to produce the spectacular decline in the value of that metal from more than 7s. an ounce in 1920 to 1s. in 1931.

Imperfect as was return to the gold standard, it combined with an increase in postwar productive capacity to bring a fall in com-

[2] See the excellent account in H. V. Hodson, *Slump and Recovery, 1929–1937* (New York: Oxford University Press, 1938), pp. 13 ff.

modity prices. The results were unfortunate. Countries producing raw materials found that the demand for their products was inelastic and did not increase as the price declined. This inelastic demand was largely because, with the improved standard of living in industrialized countries, the character of consumption had changed to embrace relatively fewer staples and more luxuries and services. Wheat might be cheaper, but the worker with more real wages wanted not more bread but a motorcar, a radio, travel, or a permanent wave. Overproduction of primary materials called out experiments in price control, governments taking the initiative to improve the value of copper, grain, cotton, rubber, diamonds, coffees, and oil, usually by restricting the supply. Substitutes came forward, output was stimulated by any rise in price, but no scheme could long quarantine one commodity against world deflation.

Overproduction of raw materials was matched by surplus output, or surplus capacity, in important industrial fields. High tariffs and other expressions of economic nationalism were the consequence. Governments were ever readier for such interference in economic life. Momentum gained during the war was increased in the efforts at reconstruction. Alliance between business and government, and, after depression struck, between unemployed and government, was prepared.[3]

WORLD DEPRESSION

The easy-money policy of the Federal Reserve System after 1925, intended to turn back the flow of gold from Europe to the United States, was mainly responsible for the speculative rise in the stock market. The collapse of that market in October, 1929, is ordinarily taken as the beginning of the world depression. In fact, however, the speculative boom had obscured downward tendencies in production and prices of manufactured goods and raw materials. In the United States construction had fallen off from the summer of 1928. Distressed farmers had been clamorous for years. Elsewhere in the world stock prices began to decline months before the decline began in New York. Even without the market crash in the United States, industrial recession, deflation of prices, and financial strains that

[3] See League of Nations, Economic Intelligence Service, *Memorandum on Production and Trade, 1925 to 1929–30* (Geneva: 1931).

Europe found ever harder to meet would soon have made economic decline evident.

Following the stock market break, degenerative forces which had been latent became active. Stock prices everywhere fell on the signal from New York, with bond prices to follow after a period of resistance. Production, commodity prices, profits, employment, world trade, and international lending all dropped away. Sharp reduction of interest rates and release of huge sums from the stock market could not give borrowers credit or lenders confidence.

The comfort which was taken, especially in the United States, in relative business improvement early in 1930 and again in 1931, had little excuse. In 1930 in the United States, Britain, Germany, France, and Italy, some 6 million were thrown into unemployment. The economic frustration led to political recklessness, most conspicuously to the rise of Hitler in Germany. The false signs of improvement were mocking. They arrested discouragement temporarily, only soon to make it deeper. However, the slump beginning in 1929, making itself felt by degrees, was the preliminary anesthetic that merely dulled the patient before he passed entirely under with the financial crisis of the spring of 1931.

On May 11, 1931, it was announced that the Kreditanstalt, largest bank in Austria, would have to be reorganized to protect the depositors. The dangers to be expected from the collapse of this institution were evident in the aid offered by many agencies—the Austrian government, the national bank, the Rothschilds, the Bank for International Settlements, the Bank of England, and many other central banks. The losses of the Kreditanstalt, which carried such dismal portent for the whole of Europe, ran back to the treaties that had shorn Vienna of her empire. The bank, left in the position of responsibility without domestic resources, had been obliged to borrow heavily in other countries until it owed $76 million abroad, mostly to England and the United States. Failure of the Kreditanstalt meant the failure of Central Europe; the financial strain was communicated everywhere because important banks must bring home other foreign assets to compensate for funds tied up in Austria. Repercussions were political as well as economic, awakening French suspicion of Germany and English suspicion of France.

Though the customs union of Austria with Germany had been forbidden, the two were linked in credit weakness. Promptly, Germany became the second victim of European panic, for she had run deficits for six years. In spite of heavy withdrawal of foreign loans, Germany still owed debts, short term and long term, on which the service was beyond her exertions when to it were added reparations, making in all $800 million annually. Germany's industry was depressed, political discontent was rising. Foreign creditors drew out of Germany two fifths of her gold, $230 million worth. Extraordinary devices to allay alarm only excited it higher. President Hoover's proposal of a year's moratorium on all intergovernmental debts arising from the war came in the nick of time, June 20. But even so, France delayed consent for dangerous weeks while the largest central banks poured $100 million into Germany. The end was not yet. Failure of a large industrial enterprise (North German Wool Combing Corporation) dragged down its chief creditor, the Darmstädter und Nationalbank ("Danatbank"). This failure roused the government and the Reichsbank to measures of protection of the banking system as a whole that anticipated in many ways the emergency banking legislation of the New Deal in the United States two years later. A bank holiday, restriction of bank payments to the most necessary items, monopoly of foreign exchange, and maximum mutual assistance between German banks could not prevent further bank failures before the situation improved in August. A legacy from the crisis, however, was control of foreign exchange by the Reichsbank in such a way as to favor some imports and hamper others.

Bank failures spread to Rumania and Hungary, requiring extraordinary measures on the part of those governments. German banks remained in a parlous state even after restrictions on them were removed, and German weakness was reflected in financial attacks on Amsterdam, which had loaned heavily in Germany. To cover losses, Amsterdam drew heavily on London.[4]

Britain now paid an undeserved penalty for having tried to bolster the economy of Central Europe. She had loaned to Germany in the spring at long term, herself borrowing from France and the United States at short term. At a time when Britain could not liquidate foreign assets, when her export trade and earnings from shipping were down, when public commissions of inquiry revealed

[4] For all these developments, see League of Nations, *Commercial Banks, 1925–1933* (Geneva: 1934).

that a balanced budget could be achieved only at risk of deepening the depression, withdrawal of gold from the London market became strong and persistent. Something very like mutiny in the navy, started by announcement of pay cuts, was all the touch that was needed to turn impaired confidence into frank panic. The Bank of England used its utmost resources to support the pound. A National Government was formed, sinking political differences in the resolve to reassure a frightened world by a solid front.

DEPARTURE FROM GOLD

At the end of August, New York and Paris made emergency loans to the British Exchequer, but when these were almost exhausted, further frantic appeal to the same quarters brought sympathy only. Since the middle of July more than £200 million had been taken from London, and the day when the Bank of England could no longer meet the drain was clearly approaching. Nothing was left but for the Prime Minister, Ramsay MacDonald, to beseech the world to preserve its own interest and England's honor by forbearing to drain off the last of the gold. His pleas were unheard. On September 21, 1931, England left the gold standard and private purchase of foreign exchange was forbidden.[5]

Within six months, of the principal countries only Belgium, France, Italy, Holland, Switzerland, and the United States remained on gold. In others, such as Germany, the gold standard was nominal only. The rest, including most of the British dominions, the Scandinavian countries, and those of South America, had followed England to a paper standard. After wide fluctuation, the pound settled at a discount of about 30 per cent. In the United States, the sterling crisis was the occasion rather than the cause of hoarding, an abrupt drop in the bond market, and new bank failures that led to formation of the National Credit Corporation to lend to institutions in distress.

However, the chief effect of Britain's departure from the gold standard was to widen and sharpen tariff wars and competitive exchange depreciation. Hardly had Ramsay MacDonald stopped sobbing over the international radio that Britannia should not be

[5] League of Nations, Economic Intelligence Service, *World Economic Survey* (Geneva: 1931–1932), pp. 77–78.

forced to sacrifice her honor, than he began to smile broadly because the fall of the pound gave her marked advantage in exports. One thought of the country girl who returned from the city with fine clothes that astonished her old friends, explaining, "Why, you know, I've been ruined." Debtor countries that could get no more loans felt they must expand their exports and contract their imports. Invasion of others' markets and defense of their own alternated in speeding restrictions on world trade. Britain entered the lists with the Import Duties Act of March, 1932 (reaching 33⅓ per cent), and the later Ottawa Agreement establishing empire tariff preference spurred other countries in the process of retaliation. Sterling losses of so many countries spread deflation through the struggle for liquidity. The contest between economies that remained on gold and those that had left it became acute. Destruction of the only international exchange standard inevitably accelerated monetary management, which contributed to economic nationalism.

Professor Lionel Robbins has remarked that "the various mercantilist expedients were once again adopted. Tariffs, exchange restrictions, quotas, import prohibitions, barter trade agreements, central trade-clearing arrangements—all the fusty relics of medieval trade regulation, discredited through five hundred years of theory and hard experience, were dragged out of the lumber-rooms and hailed as the products of the latest enlightenment." It was hard to know where economic inducement ended and political motive entered. Exchange control was responsible for more international disequilibrium than were tariffs; it was more eccentric and productive of rigidities that thwarted flow of goods and funds across frontiers. The countries remaining on gold were placed at a disadvantage, and their misfortune limited the gains to be reaped by those which chose to depreciate their currencies. Professor Robbins said as early as 1934, "Whether or not it be welcomed as a solution for certain very pressing domestic problems, no really impartial observer of world events can do other than regard the abandonment of the Gold Standard by Great Britain as a catastrophe of the first order of magnitude." And he went on to ask, "Will European democracy in the form we have known it survive the repercussions it has engendered?" [6]

[6] Lionel Robbins, *The Great Depression* (London: Macmillan & Co., 1934), pp. 114 ff.

Attempts to restore international monetary unity, or at least some workable means of communication, continued to be made for a while, but England's departure from gold was the beginning of the end of any stability. The world of trade and trust was thenceforth to be compartmented until it looked like an egg crate. If England forswore gold reluctantly, others were to repudiate it gleefully. Instead of supporting the national currency when it was suspected abroad, a nation now entered the race for its depreciation.

All obstacles to trade intensified the difficulties of debtor countries in making payment. The Hoover moratorium did not cover other than intergovernmental debts; those of public bodies and of corporations owing to private creditors now became subject to standstill agreements, adjustments of interest, payment in scrip, and blocked currencies. Even in these compromises with creditors, debtor countries tried to incorporate in the concessions means of forcing out exports and of furthering internal deflation. So many national reputations suffered that humiliation became expected, regular, and respectable. Reconstruction loans issued under sponsorship of the League of Nations to Austria and Baltic countries had fallen, in the decade since the first were made, into the same sorry plight as others. The standing of the League was damaged. Charges were that its experts had not accurately estimated ability of debtor countries to pay; had not, in supervising the loans, warned of the necessity of budget economies; and had failed to calculate on the possibility of deep and general depression. The League at length offered advice that came too late. It has been said that the Financial Committee of the League played an important role "in the evolution of a technique of default." [7]

What should be the policy when the Hoover moratorium expired now became the occasion of suspicion between governments. Popular opinion in the United States, ignorant more than anything else, demanded payment of debts owing by allies. President Coolidge had opined, "They hired the money, didn't they?" England was willing to forgive reparations if war debts were similarly expunged. France was afraid that if the Young plan were suspended she would never be able to collect from Germany, and was acutely sensible of the likelihood of being held to accountability, notwithstanding,

[7] Hodson, *Slump and Recovery,* p. 136.

by the United States. In Germany, Chancellor Bruening was earnestly appealing to the world for the wiping out of reparations before his country collapsed utterly into a defiant dictatorship that would be fatal for the family of nations.

DEFAULTING DEBTORS

Talks at London and Basel by progressive concessions prepared the way for the Lausanne Conference, in July, 1932, which scrapped reparations and provided for a closely guarded loan to Germany. The chief reparations creditors refused to ratify until they had reached agreement with their own creditors—which meant, mainly, until the United States dropped claims to war debts. Obduracy in the United States, hardened by this decision, could make no more difference to the situation than the forlorn hope of reparations creditors that they could yet extract their due from Germany. The Lausanne agreement was never ratified but, in the sequel, became nonetheless binding. In December, 1932, only Britain, Finland, Czechoslovakia, Italy, and Lithuania paid the United States their debt installments, while France, Belgium, and four other governments were in default and three more had secured postponements.

Hoover went out of office, and Franklin Roosevelt held conversations with Ramsay MacDonald. The promise of a lenient, or realistic, attitude on the part of the United States toward its war debtors was vaguer than had been given in intimations by the Hoover administration, and resulted, after delay, in American demand for the installment due June 15, 1933. Britain now made a token payment, in silver at an artificially high valuation allowed by Congress, and President Roosevelt announced that he personally did not consider Britain in default. Other governments that had previously paid now used the method of silver tokens, except Finland, which paid in full, in silver. The others defaulted again, though France called her action postponement. The same history was repeated on December 15, 1933, but after this the last pretense of reparations claims and of European solvency (except for Finland) had come to an end. Germany, now under Hitler's control, had passed from financial to political default.

While several multilateral conferences looking to reduction of tariff restrictions and stabilization of exchange proved abortive, agreements between particular countries were more successful. The Ottawa Conference, 1932, ending in a preferential tariff system within the British Commonwealth, partook of the character of both the wider and the narrower efforts. The mutual lowering of tariffs was of benefit to an important group of countries, but whether this helped or hampered recovery of the remainder of the world is a question. One effect of Ottawa seems clear: Britain and her dominions entered the World Economic Conference committed on both of the main issues which came before that gathering. These were general tariff reduction and currency stabilization on the basis of a gold standard. In effect, these devices for restoring the world's economic activity came to be regarded in the conference as alternatives; the British Commonwealth could not, consistently with its own recent conduct, advocate either; hence it advocated both and made confusion worse confounded.

The World Economic Conference had been proposed by the Lausanne Conference which ended reparations, but it was the League of Nations which convoked the larger gathering to consider further means of promoting world recovery.

If the bearing of Britain in the conference was equivocal, intervention of the President of the United States was fatally hostile to the agenda and put an end to the effort. Earlier, when the conference was preparing, it had seemed that the United States would help to remove arbitrary impediments to trade, stabilize exchanges, reform and as soon as possible return to the gold standard, and adjust debts. These had been the assurances from Washington and were the ardent aim of Secretary of State Cordell Hull and his American delegation to the conference. In the middle of May, a month after the United States went off the gold standard, President Roosevelt still approved such objects of the conference as "the stabilization of currencies, the freeing of the flow of world trade, and international action to raise price levels."

However, by the time the conference assembled in London, June 12, 1933, the United States was launched on "New Deal" policies of stimulation of the national economy without regard to, or in opposition to, the rest of the world. The conference had no more than got under way when Secretary Hull presented to the delegates a message from President Roosevelt that was so sharp a lecture as to amount to a dismissal.

Reasons for this turn of President Roosevelt will be explained in describing the course of the depression in the United States. The conference lingered briefly, with no result except an agreement between certain countries for measures to improve the price of silver. The conference had been the effort of a distraught world to restore trade and lending—and so production, employment, and national solvency—by the cherished means of accessible markets and exchangeable currencies. Cooperation of the United States was indispensable to success. It might have failed from other causes, but the United States' choice of a national rather than an international program was the death of the undertaking. As tired and disgruntled statesmen dispersed to their countries it was to devise plans, uninspired except by suspicion or fear, which could not prevent another war.

United States departure from the gold standard, devaluation of the dollar, ample power given the President for inflation, plus the schemes for restriction of output (AAA and NRA), were all expected to raise domestic prices. But the domestic results of monetary debasement were slight. The increase in American prices was not so great as the fall in the value of the dollar on the foreign exchanges. Of course this gave a distinct advantage to American exporters and forced countries on gold to deflationary measures so that their goods could compete with those of America in world markets. Countries not on gold were spurred by the United States in the race for currency depreciation. Perhaps these international consequences were in President Roosevelt's mind when he took the decision to turn from collaboration to isolation. Perhaps not. In any event, from the time of the collapse of the World Economic Conference the centripetal tendencies that it expressed were in the discard, and centrifugal economic motion was pronounced. Each country was looking out for its own interest first, and made agreements with other countries only because joint action was necessary to selfish purpose. Economic war conducted easily to military war.

The United States had led in insistence that the nations most concerned should "do something for silver." The silver-producing states were alert to the chance now presented to increase the demand and the price for silver. Inflation would be served by turning countries toward bimetallism. Countries holding much silver were to limit the amounts they sold, and silver-producing countries were to buy up newly mined silver.

The United States played the most active role in what followed. The artificially high price that the United States maintained for silver forced China by degrees off the silver standard, and both Nanking and Canton governments went on an inconvertible paper basis. Similarly Mexico was forced by the high price of silver to call in all silver coins and give inconvertible paper in return. The silver purchase policy of the United States was futile at home and mischievous abroad.

ECONOMIC AUTARCHY AND REARMAMENT

In the first half of the thirties, the New Deal had its counterparts, more or less complete, in several countries. Restriction of production in some quarters of the economy, encouragement of output in others, raising of some prices and insulation of higher domestic from lower world prices, public works and more direct subsidies were all undertaken by governmental intervention. These efforts in England, Germany, France, Italy, Australia, Canada, and elsewhere were matched by international and national schemes for control of principal raw materials and agricultural products such as rubber, nitrates, tin, copper, oil, wheat, cotton, and coffee. In spite of measures that ranged all the way from mild admonition to the burning of 35 million bags of coffee by Brazil between 1930 and 1935, prices were not always raised nor was national credit always saved. Areas outside the agreements seized the invitation to increase their output, thus adding to the total productive capacity with which the world had to deal later. Brazil had this experience with coffee, the United States with cotton.

While all programs of economic nationalism tended to starve intercountry trade, Germany was most conspicuous, after the National Socialists came into power in 1933, for her autarchy. For her own industry she had to have imports of raw materials, but she paid for these as far as possible in blocked marks; when this treatment caused complaint, Germany turned to reclaiming scrap of all sorts and devised ersatz materials. Much of this effort was uneconomic, though only a trifling by-product of a partitioning of the world which was stultifying. In two countries more than others—Germany and Italy—internal economic betterment hung on the most harmful substitution of large standing armies and munitions factories for the legitimate industries which were lacking.

The countries of the gold bloc—France, Belgium, the Netherlands, Italy, Switzerland—were compelled to deflate as fast as those off gold were able to inflate. But the process was far more painful for makers of state budgets, for businessmen, and for workers. High protectionism and trading agreements among themselves were consequences. When virtue ceased to be its own reward in Belgium, the belga was devalued and the country practically left gold. Italy, facing a situation which was industrial and commercial as well as financial, could not escape from depression by invading Ethiopia, but petulantly threw good money after bad.

France and the other countries of the gold bloc had long endured the penalties of deflations. Restricted budgets, low wages and prices, long hours, defense against imports had been their only means of competing with neighbors that embarked on paper currencies. In 1936 pressure on the franc combined with deeper causes to end the unequal contest. The Popular Front had come into power under Léon Blum, who announced the French equivalent of the American "New Deal," with the forty-hour week, collective labor contracts, assistance for farmers, the aged, and those on small fixed incomes. In a word, the economy was to be released from confinement. For a brief interval credit reflation was the program. But this was abandoned when, September 25, 1936, the French, British, and United States governments announced that the franc would be devalued between 25 and 35 per cent. Every effort would be made to stabilize the currencies of the three countries in relation to each other. Soon the Netherlands, Belgium, and Switzerland adhered to the agreement and took suitable action, Italy devalued the lira, and minor countries in the gold bloc either tied their currencies to sterling or intimated that they might soon do so. Hope had been expressed that the effort to bring currencies closer together in purchasing power would relax trade restrictions and facilitate interchange. Germany kept to her old gold parity, because devaluation would compel her to pay more for raw materials imported, but this parity was nominal, being maintained only by rigid exchange controls.

Exchange equalization funds, built up of the gold "profits" from devaluations, were used to counteract currency fluctuations. Developments in late 1936 and the first half of 1937 seemed to bear out the trust that revival of world trade would bring international and national recovery. The League of Nations *World Economic Survey* could say by the spring of 1937 that confidence and enterprise had been stimulated to the point where "at the present time, economic activity in all but a few countries has definitely passed out of the depression into the boom phase of the business cycle." During 1936 and the early months of 1937 world trade increased in amount and value, but the increase was mostly accounted for by movement of raw materials to industrial countries where manufacturing was revived by rearmament programs. Heavy industry went ahead of raw materials production and of production of consumers' goods. There was a tendency to relax restrictions on movement of raw materials, because the countries producing them were eager to sell and the industrial countries wanted a full supply. However, as revival came, manufactures were further protected. In spite of technological advances, shortages of skilled labor appeared, and the League of Nations *World Economic Survey* in 1937 hoped that countries would get rid of all but the "hard core of unemployment due to special causes." World industrial production reached in 1937 a peak slightly above what it had been in 1929.

But this betterment proved artificial and temporary. A substantial part of it was owing to Russia's advance, which reached an output four times what it had been in 1929, and Russia's economy was no indicator of revival in the rest of the world.[8] World expenditures on rearmament were two to two and a half times in 1936 what they had been in 1933. War was added to preparation for war, Italy invading Ethiopia in 1935, the Spanish "civil" war commencing in 1936, and Japan attacking China in 1937. Britain announced her armaments program in February, 1937. The world never did get out of the depression except through rearmament and war.

RECESSION AND WORLD WAR

Further, revival in the United States, which had reflected itself beneficially to the rest of the world, changed to recession in the

[8] League of Nations, *World Economic Survey*, 1937–1938, pp. 69–72.

late summer of 1937. The American boomlet had been based on government spending, which came to an end with the President's belief that prices had risen unjustifiably; legal reserve requirements of member banks in the Federal Reserve System were raised by 50 per cent in August, 1936, and the first half of 1937; the Treasury sterilized gold by putting its new purchases in an "inactive gold fund"; government securities were sold to reduce deposits. The veterans had about exhausted their $2 billion bonus. Sitdown strikes became epidemic, Europe feared that the United States would lower the dollar price of gold to reduce prices. In March-April, 1937, commodity prices reached their peak. The undistributed profits tax had caused a sudden increase in dividend payments, the lapse of which combined with deeper causes to start a sharp market decline in the United States and in other countries. Widespread industrial recession soon became evident, failure of demand from the United States contributing to the general drop. After the middle of 1937, with both quantity and prices falling, total value of world trade declined seriously, particularly to the disadvantage of countries exporting raw materials.

This fresh depression helped reverse the hopeful tendency toward liberalizing international trade. Raw-material countries retreated from freer trade policies because of the effects of the fall in price of their exports. Restriction schemes that had been relaxed to satisfy the rearmament demand were reimposed, but not in time to prevent the piling up of surplus stocks. In 1937 170 clearing agreements were in force, intended to balance trade between pairs of countries only, and sacrificing much of the benefit of international specialization. Japan, in the autumn of 1937, put quotas or prohibitions on certain nonessential imports in order to conserve exchange for foreign goods made necessary by the war on China. Germany's autarchic Four-Year Plan effectively insulated her against world commercial fortunes, whether in recession or revival. France had never enjoyed recovery. Steady excess of imports over exports and the prospect of rising internal prices and more budget deficits had combined with political and military apprehension to cause a flight from the franc. In May, 1938, the exchange value of the franc was depreciated 10 per cent with the consent of England and the United States. Not till the end of the year, with further devaluation of the franc and easing of internal credit, did business in France begin to improve; nevertheless, production in 1938 was still little more than three quarters of what it had been in 1929.

The most important effort to free trade from quotas and tariffs was that of the United States through reciprocal agreements, sixteen of which, covering one third of American foreign commerce, had been concluded by the end of 1937, with others embracing an equal volume in the stage of negotiation. The beneficial effects of these agreements were spread because they contained the most-favored-nation clause. This policy of the United States strongly influenced the report of M. Paul van Zeeland on means of removing obstacles to international trade, made public in January, 1938, in the midst of the world recession. Reciprocal commercial agreements with the most-favored-nation provision were urged as the best means of restoring activity. Nations should agree not to raise duties, and gradually to lower exceptionally high ones, suppress quotas on industrial goods, and relinquish exchange controls. A return to the gold standard on some basis seemed the best solution of exchange fluctuations, but meantime countries should agree to preserve limits in the movements of their currencies on the exchanges. Restrictions on transfer of funds for imports were most serious impediments to world trade, because these had led to clearing agreements between particular countries. A solution might be found in multilateral clearing of claims falling due in each currency.

These considered proposals, purposeful yet tempered with patience, outlined such a scheme for restoration as perhaps the World Economic Conference would have framed had it been permitted. Intelligent as they were, they came too late, for their peaceful message was overwhelmed by German invasion of Austria and Czechoslovakia, by Polish and Hungarian annexations, and by redoubled military preparations in England and France. The economic drama had nearly played itself out to its warlike denouement.

About the middle of 1938 the recession reversed itself by virtue of resumed public works expenditures in the United States and huge armament orders elsewhere, with further revaluation of monetary reserves. But the fundamental economic derangement of the world was shown in the greater disparities of production curves of different countries after the depression than were evident in the period before 1929. Production increases before the great depression ranged in different countries from 12 to 55 per cent, and after the depression from 14 to 120 per cent, with similar divergence in periods of decline. The economic life of the world was no longer integrated, but had been sundered into jealous, isolated units, or at best into competing empire blocs. Long-term lending by developed countries did not revive; instead, nervous, speculative money flitted from one center to another, seeking hazardous, quick gain.

There was business hesitation, particularly in the United States, in the spring of 1939, but the fortunes of legitimate commerce no longer mattered much. The United States bartered cotton with England for rubber, and soon it was revising neutrality safeguards and entering on its defense program. From this point on, the economic story, the world around, becomes a military one.

It is difficult to review this history of twenty years from Versailles to Warsaw without being convinced that the convulsion of one war led to the tragedy of another. The international economic constitution never sufficiently recovered in all its parts to resist relapse.

CHAPTER I

Descent and Deficit

DEPRESSIONS have characteristically taken the country by surprise; else speculation, the confident counting on continued expansion, would not have marked the preceding phase. The downturn of 1929 was conspicuous in this respect, as the elation which came before was extraordinarily uncalculating. Striking evidence of complacency shortly before the collapse is furnished by the report on *Recent Economic Changes,*[1] made by a committee of the President's Conference on Unemployment. The survey of the years 1922–1929, on which the committee's findings were based, was under the auspices of the National Bureau of Economic Research "with the assistance of an unprecedented number of governmental and private agencies." The underlying investigations were carried out between January, 1928, and February, 1929, and the conclusions of the committee were drawn in the spring of 1929, about six months before the stock market crash and eight or nine months after indexes had shown declines in construction and important heavy industries. The chairman of the committee was Herbert Hoover; other members were leaders in finance, transportation, labor, science, and education.

Though "directed to make a critical appraisal of the factors of stability and instability"[2] and to suggest recommendations, the com-

[1] Conference on Unemployment, *Recent Economic Changes in the United States* (New York: McGraw-Hill Book Company, Inc., 2 vols., 1929), 950 pp.

[2] *Ibid.*, p. v.

mittee showed a nearly complete infatuation with prosperity and the promise of its continuance. "Acceleration rather than structural change is the key to an understanding of our recent economic developments" [3] was the opening sentence of the report, which went on to congratulate the country upon price stability due, among other things, to "prudence on the part of management; . . . skill on the part of bankers . . . and the expansion of foreign markets." [4] An assurance soon to be disappointed was that "with rising wages and relatively stable prices we have become consumers of what we produce to an extent never before realized." [5] Its attention attracted casually to the dips of 1924 and 1927, the committee failed to see that the whole span 1922–1929 was a gigantic upswing, for it reported that "no serious cyclical fluctuations have characterized the period under review. . . ." [6] Technological unemployment was noted but discounted in the general esteem for inventions. The broadening influence of America's creative minds was largely responsible for "the maintenance of our economic balance." [7] Our degree of economic stability was high, and later strophes of the hymn praised "the dynamic equilibrium of recent years," [8] and "the organic balance of economic forces." [9] "Our situation is fortunate, our momentum is remarkable." [10] Hopefully, organic balance of the economic structure would be preserved by persistent, intelligent effort.

The introduction to the essays of the specialists, by Professor Edwin F. Gay, while more mindful of the danger signals, was unaware of impending panic and depression. Dr. Gay spoke of "an increasing professional spirit in business, which springs from and entails recognized social responsibilities." Codes of ethics were helping in the "self-policing" of business. "The strength and stability of our financial structure, both governmental and commercial, is of modern growth." [11] With the wisdom of hindsight one remarks that Professor Gay and those working with him omitted to study the interaction of the American economy and world forces; their scrutiny was too far national. The individual studies of recent changes in important areas of American economic life presented ominous as well as prideful tendencies. But in conferences with the committee, in

[3] *Ibid.*, p. ix.
[4] *Ibid.*, p. xiii.
[5] *Ibid.*, p. xiv.
[6] *Ibid.*, p. xvii.
[7] *Ibid.*, p. xx.
[8] *Ibid.*
[9] *Ibid.*, p. xxii.
[10] *Ibid.*
[11] *Ibid.*, p. 11.

which the disclosures of the studies were discussed, no doubt was inserted into official confidence in the future. Nowhere was there a Joseph to set seven as the number of the fat years.

It is not necessary to give a detailed recital of the stock market crash of October and November, 1929, including a full account of the phenomenal volume of shares traded, the drop in quotations, and the number of hours the ticker ran behind. After the first break in September, October days made records for deluges of selling—over 4 million shares on the New York Stock Exchange on the 16th, over 6 million on the 23rd, almost 13 million on the 24th, nearly 16.5 million on the 29th; the highest number of shares poured out on any day in November was less than 8 million on the 13th. In a few weeks of "the greatest stock market catastrophe of all the ages," some $30 billion in supposed values disappeared.[12]

The stock collapse may be called the exciting force of the depression. It was merely the spectacular signal of the end of the "New Economic Era" of the prosperous twenties. But the determining cause, or causes, of hard times lay deeper. The business cycle is a continuum, and it is a mistake to regard high or low points on a chart as beginnings. The fever is reaction from the chill, but both follow from the organism that has lodged and is regenerating in the system. In this instance chief responsibility may be ascribed to World War I, with its international and national results. In the world at large were credit, trade, and currency derangements, intensifying and exaggerated by the ambitions of new and old countries. Political demands were blended with economic policies.

If national signs may be separated, the United States as a result of the war became a creditor that at once required and refused the only practicable means of payment. Her protective tariff, with consequent drain of gold from Europe, must bear heavy blame. The troubles of staple agriculture followed, and communicated themselves slowly but surely to the entire economy. Accompanying were technological improvements on farm and in factory that made for instability, evident in warning dips in the business curve in 1924 and 1927. Unheeded warning was in the sudden increase of unemployment. In various ways, prosperity was forced from about

[12] See New York Stock Exchange, *Report of the President*, 1929–1930 (New York: 1930) and New York Stock Exchange, *Year Book*, 1929–1930 (New York: Committee on Publicity, 1930).

1926, convenient proof lying in the growth of consumer credit through installment sales. A further influence was the low interest rate maintained by the Federal Reserve Board, with international motive better than the result at home. Withdrawal of funds loaned in Europe brought in its train a proliferation of investment trusts and the last and most specious phase of prosperity—mounting stock market speculation. Ironically, this overlapped with the sag in the index of general industrial production between May, 1927, and June, 1928,[13] from which building construction, with its many connections, did not recover; bituminous coal and cotton textiles, though basic, were disregarded as chronically depressed. But this summary touches upon only the most prominent features, to the neglect of many that would make plainer the evil interaction of forces.

STOCK MARKET COLLAPSE

The first impact of the depression was less sudden and pronounced on industry and business generally than in the stock market, where the blow fell with concentrated force. This fact, coupled with partial though temporary recovery of stock prices early in 1930 and aided by wishful thinking, led many, from President Hoover downward, to believe that basic progress was to continue, and that trouble had been confined to securities speculation, where liquidation, though severe, was probably salutary. We may see first what happened to stocks, and then to business broadly, in the final quarter of 1929.

The index of security prices compiled by the Standard Statistics Company (1926 = 100) showed a movement of a group of 404 stocks from 183.6 in January, 1929, to 225.3 in September, the peak, with a fall to 153.8 in December.[14] The course of 337 industrials was from 191.4 in January to a high average of 216.1 in September to 146.9 in December. For 33 rails, the history was 141.0 in January, 168.1 in September, and down to 136.0 in December. Public utilities figured conspicuously in the market; 34 of these went from an average of 188.3 in January up to the peak of 321.0 in September, and fell off

[13] *Federal Reserve Bulletin*, XV, No. 3 (March, 1929), 191.

[14] *Ibid.*, XVI, No. 1 (January, 1930), 14. For shrinkage in dollar values see U. S. Senate, Banking and Currency Committee, Report on Stock Exchange Practices, 73 Cong., 2 Sess., p. 7.

to 200.9 in December. In the case of each group of stocks, the quotation for December 28 was lower than the average for the month. Naturally bonds, with fixed interest return, had a contrary trend, 40 issues falling steadily from an average price of $96.12 in January to a low of $92.29 in September, and recovering to $94.09 for December. Rates on new call loans in the stock exchange reached the monthly peak of 9.80 in March, averaged 8.62 in September, fell to 6.10 in October, and further to 4.88 in December.

A corollary of the decline in stock prices was the shrinkage in brokers' loans. Loans on securities by member banks in leading cities, after rising from $6 billion to $7 billion in 1927, and gaining a half billion more in 1928, reached the peak of over $9 billion about November 1, 1929.[15] The *Federal Reserve Bulletin* for December commented: "After the recent liquidation security loans still showed a large growth during the past year. The growth was not in loans to brokers, however, but in security loans to others, chiefly customers who had transferred their borrowings from brokers directly to the banks." All other loans showed a constant growth from February, most rapidly during November. The increase after the middle of October, $300,000,000, was contrary to the usual seasonal trend, and included, besides loans for commercial purposes, a variety of investment operations.[16]

A spectacular decline in the volume of funds loaned by member banks in New York City to brokers accompanied an even greater liquidation of brokers' loans for the account of nonbanking lenders; $3,450,000,000 on loan to brokers and dealers November 27, 1929, represented a reduction of almost half, as compared with the maximum ($6,634,000,000, October 23), being back to the level of two years earlier.[17] About 60 per cent of this decrease occurred in loans for nonbanking lenders, which decreased $1,840,000,000 in the five weeks after October 23, but were still $1,420,000,000 above January 6, 1926. As was true of member banks in the country generally, those in New York increased the volume of their credit as they took over the loans of nonbanking lenders, the total funds used in the security market decreased by a large amount, and the credit situation improved—a result which continued for a time to be reassuring.

Issues of domestic corporate securities, exclusive of refunding,

[15] *Federal Reserve Bulletin,* XV, No. 12 (December, 1929), 758.
[16] *Ibid.* [17] *Ibid.,* p. 756.

had increased steadily from $3,332,000,000 in 1924 to $6,015,000,000 in 1928, and then shot up in the first ten months of 1929 to $8,130,000,000. Miscellaneous issues, including those of investment trusts, in 1927 had been only $883,000,000, in 1928 were $1,577,000,000, and in the first ten months of 1929 were $3,396,000,000.[18] Investment trusts were the principal single factor in the growth of total security issues in 1929, particularly in the later months; they were also a source of brokers' loans for the account of nonbanking lenders, since the trusts loaned on call at the high interest rates of early autumn 1929 part of the funds they had obtained from the public through sale of their own securities. Thus investment trusts figured doubly in the speculative rise. When security prices fell, investment trusts withdrew some of their funds from the call loan market to use in buying securities at lower prevailing prices.

The country's stock of gold had increased by $250 million during the first ten months of 1929, mostly through imports; it began to decline at the beginning of November, following the break in the stock market and with the comparatively more attractive money rates abroad, and at the end of December had been reduced by $100 million.[19] The Federal Reserve Board's wholesale price index for all commodities (1926 = 100) dropped from 97.2 in January, 1929; went up to 98.0 in July; fell to 94.4 in November.[20] The index of industrial production (1923–25 = 100) fell from 117 in January, rose to a peak of 126 in June, fell to 106 in November.[21] Production in basic industries decreased 9 per cent in that month, standing at a point 5 per cent lower than a year before.[22] Prior to November, the decline in production that began in midsummer was confined to industries which had expanded rapidly earlier in the year, such as iron and steel, automobiles, and rubber. But in November came declines also in copper, cotton and wool textiles, shoe manufacture, coal, petroleum, and building contracts.[23] Carloadings in November showed a more than seasonal loss.[24] Decrease in factory pay rolls and in physical volume of production were larger than the decrease in factory employment. Department store sales, adjusted for seasonal variation, fell from 123 in September to 108 in November.[25]

18 *Ibid.*
19 *Ibid.*, XVI, No. 1 (January, 1930), 1.
20 *Ibid.*, p. 37.
21 *Ibid.*, p. 15.
22 *Ibid.*
23 *Ibid.*, p. 16.
24 *Ibid.*, p. 15.
25 *Ibid.*

WHISTLING IN THE DARK

Public statements at the New Year on the business outlook for 1930 damaged more reputations of forecasters than they bolstered. In the midst of the stock market debacle two months earlier, prominent persons whose word was apt to be taken—bankers, industrialists, economists, government officials—had declared their confidence in stocks, not to mention underlying business soundness. At the beginning of the year more perspective might be looked for. The optimism expressed, however, was hardly representative, for most of those with serious misgivings about the future did not offer their opinions or find them published. Secretary of the Treasury Andrew W. Mellon committed himself blithely: "I see nothing . . . in the present situation that is either menacing or warrants pessimism. . . . I have every confidence that there will be a revival of activity in the spring and that during the coming year the country will make steady progress."[26] The White House reported the President as considering "that business could look forward to the coming year with greater assurance."[27] Willis H. Booth, president of the Merchants' Association of New York, saw "no fundamental reason why business should not find itself again on the up-grade early in 1930."[28]

The Guaranty Trust Company of New York expressed qualified hope: "Although there is no failure to appreciate the importance of the collapse of stock prices as an influence on general business or to ignore the historical fact that such a collapse has almost invariably been followed by a major business recession, emphasis has . . . been placed on certain fundamental differences between the conditions that exist at present and those that have usually been witnessed at similar times in the past." Inflation in stocks had not been matched by an advance in commodity prices. It was recalled that there had been no crucial credit strain, though this assurance disregarded expansion of federal reserve credit in the last quarter of 1929 by half a billion dollars and the lowering of the discount rate to 5 per cent and then to 4.5 per cent to prevent deflation from bringing down the banks. There was little accumulation of inventories, though "the most important factor in the present business recession was over-production in the most important industries.

[26] *Commercial and Financial Chronicle,* XXX, No. 3367 (January 4, 1930), 21.
[27] *Ibid.* [28] *Ibid.*, p. 24.