Introduction

The Brain Trust was first formed in 1932 in order to help with Franklin Delano Roosevelt's presidential election campaign. Originally composed of three professors from Columbia University in New York City, the group soon expanded to include bankers, journalists, and politicians in Roosevelt's cabinet. While the Brain Trust never actually met together in an official setting, all of the members were extremely influential in forming both the economic and social policies of Roosevelt's New Deal.

Causes of the Great Depression

The Great Depression was a culmination of many financial factors. An unexpected stock market crash led to widespread bank failures. A weak federal response, combined with a few unforeseeable problems such as a sweeping drought all exacerbated the problem. This left banks in a very precarious position in 1933, as they had overinvested before the economic crash. Over 5,000 banks were shut down and most others faced a host of problems as most members had had their confidence in the bank system shaken.

The American economy rapidly expanded during the 1920's, and as a result the stock market grew. Investors saw the boom in prices (from 1920 to 1929, stocks' values increased by over 300%) and assumed the market would keep growing. They often borrowed money, banking on a rise in stock prices to provide them the means to pay off their loans.[i] This is referred to as "buying on margin". This effectively had the effect of magnifying any change in the stock market. If a stock's price went up by even a small fraction, then the investor's earnings were much larger than if they did not buy on margin. Unfortunately, the same was true for any losses. This "get rich quick" attitude pervaded American society, as many inexperienced, ordinary people took out large loans and mortgaged houses to purchase stocks without even considering

the possibility of stock prices falling.[ii] Even banks were not immune to this fervor, as many of them invested large portions of their deposits into risky stocks. As this occurred, the stock market began to outgrow the economy, and peaked in August 1929, when the stocks were vastly overpriced.[iii]

This "bubble" popped on October 24th, 1929, when many investors, fearing the inflated values of stocks would fall, sold stock in a panic. Over the next few days, the market crashed. In November of that year, the Dow Jones plummeted, dropping from $400 to $145.[iv] This was hugely detrimental for two reasons. First, many Americans, ranging from millionaire margin investors to middle class families who dabbled in the market, effectively became bankrupt. However, even those who stayed out of the stock market felt the effects. Most banks invested a dangerous amount of deposits in the stock market, and when it crashed, they lost many people's savings. The crash caused a loss of $145 billion in deposits.[v] This especially hurt what are known as isolated banks. There are two types of banks- isolated and branch. Branch banks, as the name implies, are all connected to a system of banks. When the stock market crash and subsequent runs on banks occurred, branch banks were better prepared (though not nearly fully prepared) to handle it by sharing funds. However, isolated banks had no support system to rely on and were especially unprepared for the crash and its effects.

The stock market crash was only the beginning cause of a series of economic woes for the American people. A series of bank runs began in 1930. Essentially, a bank run is when most bank patrons withdraw all deposits from the bank, because they are worried about the stability of the bank. These runs were often sparked by a realization of the banks precarious situation and lack of physical money. By this time, many rural banks were plagued by a downturn in crop prices, which had led to many farmers defaulting on loans. Urban banks also faced large amounts

of investors and middle class patrons defaulting on their loans. This was all in addition to the aforementioned problem of the banks losing massive amounts in the stock market.[vi]

Bank runs were dangerous to the economy because the panic they caused spread like wildfire. What could start with a few families worried about the stability of the banks once they caught wind of the problems banks were facing, often exploded into many of the patrons demanding their deposit. During this period thousands of banks declared bankruptcy. This situation continued for several years.

After the Depression first struck, the federal response was poor, ineffective, and at times, damaging to the recovery efforts. A strong emphasis on Protectionism, a lack of action by Hoover, and poor monetary policies implemented by the Federal Reserve all served to dampen recovery efforts. It is hard to say decisively how much of an effect they had upon the economy, but it is safe to say these were not very effective.

As the Great Depression took hold, so did Protectionism. This was the policy of using tariffs to protect a country's own economy, at the expense of global trade. It had its roots in the 1922 Fordney-McCumber Tariff Act, which raised tariffs and gave the president limited authority to alter the tariff levels. This was not a huge detriment to international trade by itself.[vii] However, in 1930, the Smoot-Hawley tariff was passed. This was a much larger tariff, and it had many harmful side effects. It was initially created and passed to bolster the American agriculture sector, as overproduction in the 1920's had lowered crop prices, which as mentioned before harmed many farmer's abilities to repay loans, which posed a huge threat to rural banks. It also sparked a global Protectionism fever. Between 1929 and 1934, international trade declined by 66%. US exports to Europe fell by over 50% and decreased by a total of roughly one and a half

billion dollars.[viii] The global economy was already weak, and the selfish policies implemented by both the US and many other countries harmed it even more.

One notable aspect of the Depression is its widespread effects. Not only did it affect the American economy, but due to the spread of Protectionism, among other factors, the entire global economy actually slumped. The lack of international trade severely harmed nearly every country in the world. In addition, unstable currency rates plagued nations and decreased investor confidence.

There are a few unrelated but still important factors in the Great Depression. A drought swept the plains region, known as the "Dust Bowl". This further harmed the already devastated rural economies and provided another obstacle to recovery.[ix] There was pre-existing wealth disparity, caused by the general raising of the wealthy's wages but not the middle class. This was due to the rise of mass production. The dangerous side effect was the lowering of buying power of the average American, which plunged businesses profits after the situation took hold.[x] This phenomenon was known as "production shock". Private debt increased by roughly 50% at this time, and spending at this rate was unmaintainable ultimately contributing to the collapse of the economy. Another side effect was the increase of the amount of product available on the market, which outpaced the growth of the buyers in the market. Thereby deflating American currency.

Banks During the Great Depression

The bank situation during the Great Depression was very poor. Thousands of banks had declared bankruptcy and ceased to function, while the rest were running low on reserve funds and found themselves vulnerable to bank runs.[xi] Compounding the already difficult situation were different problems faced by rural and urban banks.

Urban banks were especially susceptible to economic problems, such as the stock market crash, or the issues associated the "production shock". The banks also faced this major issue of corruption. The New York Bank of the United States was shut down in 1930 due to a host of corruption-linked occurrences. It had repeatedly bought it's own stock, driving up and artificially increasing stock prices. In addition, they had $37,000,000 in risky loans, which the heads of the bank had ignored and lied about in reports to shareholders. When, in December of 1930, these problems were made public, a huge rush by worried investors shut down the bank, despite large cash injections provided by the American government.[xii]

Rural banks avoided some of the pitfalls of the financial system, and were not affected as much by it. However, they faced a host of other problems. For ten years leading up to the Great Depression, farm prices had been very low. This resulted in many non repayable loans. This often caused banks to not have as much cash reserves as projected, and in some cases they would actually lose money on loans. Banks with limited reserves were weak to runs and panics.[xiii]

As banks began to fail, so too did the American economy. From 1929 to 1933 the national GDP fell almost 50%,[xiv] while the value of goods and services that the economy produced fell by about 42%.[xv] By 1933, over 100,000 businesses had failed.[xvi] As a result, a wave of unemployment swept throughout the country. At its height, the unemployment rate reached over 25%.[xvii] Major companies like Ford and General Electric began getting rid of a large percentage of their workers and closing down factories across America. Those who were still employed often encountered cuts in wages and working hours. For example, in 1932, one Congressman in Birmingham, Alabama noted that only 8,000 of the 108,000 workers in the city were employed full time. In addition, all workers had "serious cuts in their wages and many of them [did] not [earn] over $1.50 per day."[xviii]

Poverty During the Great Depression

Massive poverty ravaged American life as an increasing number of unemployed workers lost their homes and assets. Soon shantytowns, known as "Hoovervilles" after then president, Herbert Hoover, began appearing across the country. Starting in Seattle, Hoovervilles were made up of poorly constructed one-room huts where homeless workers would live in destitution. These towns posed a number of dangers to those that inhabited them, including increased susceptibility to disease and fires. Despite these dangers, Hoovervilles continued to grow in popularity as they provided inhabitants with a sense of community and a form of shelter.[xix]

With unemployment rates rising and schools closing, over 250,000 teenagers left theirs home to live a nomadic lifestyle known as "riding the rails."[xx] These teens, called "boxcar children", would sneak onto trains to travel around America seeking employment and new adventures. However, "riding the rails" also posed many risks to young adults. Those caught trespassing were brutally beaten or sent to jail. Exposure to vermin, as well as, malnourishment and a general lack of cleanliness led to the spread of diseases among these destitute children.[xxi] Unfortunately, hospitals would rarely admit these teens, thereby increasing the likelihood of death.

Although the Great Depression affected all Americans, African-Americans suffered especially harsh conditions. By 1932, half of all African-Americans in southern states, such as North Carolina Georgia, were jobless.[xxii] Moreover, as unemployment increased among whites, animosity towards the black population increased as well. Groups like the Blacks Shirts began organizing campaigns against African-Americans calling for "no jobs for [black men] until every white man has a job."[xxiii] Whites also vandalized African-American's homes and resorted to violent acts such as lynching, in order to intimidate the African-American community. During

this period, millions of blacks began to migrate from the South to northern industrial cities like New York and Detroit to escape racism and find new jobs. Unfortunately, unemployment levels for blacks remained the same in the North as they had in the South.[xxiv] Latin and Asian Americans encountered similar discrimination and unemployment rates and many, especially Mexicans, were effectively forced to leave the country.[xxv]

The elderly population in America also faced many issues during the Great Depression. Prior to the Great Depression, retirees supported themselves with the money saved while employed, which was usually very little. Businesses rarely provided pension for their workers. In fact by 1932, only 5% of elderly Americans were receiving money from a retirement plan.[xxvi] There were no federal government programs to provide care for the elderly, so the burden commonly fell upon charities and family members. However, supporting elderly relatives became increasingly hard for most Americans as unemployment rates grew and wages shrunk.

Rural Life During the Great Depression

Additionally, the Great Depression was not exclusively an urban problem. Even before the height of the Great Depression, rural America was suffering. In the 1920's, although demand for agricultural products had decreased, new technologies, like tractors, made it easier for farmers to reap larger harvests than ever before.[xxvii] Therefore, there was a much greater supply than the demand required. Furthermore, as the Great Depression worsened in Europe, demand for agricultural products decreased even more. All of these factors caused farm prices to drop dramatically in the early 1930s, resulting in a 60% decline in farm income between 1929 and 1932.[xxviii]

Life for the American farmer became more challenging as the decade progressed. Unsustainable, agricultural practices in rural America, like dry-land farming and over-grazing,

rendered miles of farmland useless.[xxix] In 1930, a severe drought swept across the plains and southwest region eliminating even more farmland and creating a barren area called the Dust Bowl. Soon massive winds swept up large amounts of overused soil resulting in dust storms. Known as Black Blizzards, these dust storms destroyed homes, suffocated farmers' livestock and whisked away soil from farmland.[xxx] The drought severely weakened the already struggling rural economy.

As drought and dust storms devastated farms and rural towns, farmers began to leave their homes and move westward. During the 1930's, over one-fourth of farmers migrated to search for new jobs in western states like California.[xxxi] Most of these farmers and their families came from the state of Oklahoma, causing them to be called Okies. However, people migrated from all over the southwest and plains regions including Texas, Missouri, and Arkansas. These farmers would travel across the West working for extremely low wages as agricultural migrants. Unfortunately, many of these migrants faced discrimination in the areas they moved to. For example, a "Bum Blockade" was established in Los Angeles to prevent migrants from coming to the city.[xxxii]

Throughout America, agricultural communities lacked many of the basic amenities and services found in urban areas, especially electricity. By the 1930's, only 10% of rural America had access to electricity.[xxxiii] Most families used only kerosene lamps for light. However, without electricity, farmers and their families lacked access to running water posing many sanitation and health issues. The absence of electricity also made food refrigeration and preservation extremely difficult. One author noted that spoilage from the lack of refrigeration caused the loss of "25% of the value of all hogs slaughtered on farms."[xxxiv] However, these rural areas lacked the

infrastructure like dams to support efforts to provide electricity. These conditions exacerbated the effect of the Great Depression.

Response of the Hoover Administration

Before Roosevelt took office, his predecessor Herbert Hoover, made several attempts to end the Great Depression. A staunch Republican, Hoover preferred to take a more hands-off approach believing that the government's job was to "bring about a condition of affairs favorable to the beneficial development of private enterprise."[xxxv] During his term as president, Hoover avoided government interaction in the economy and declined to sign laws that would increase the country's debt. Instead, in the early stages of the depression, he advocated for volunteerism within communities, requesting private charities and local governments to provide aid to the impoverished. Hoover also met with business leaders in Washington, requesting that they hold off on firing employees and cutting wages. However, by 1931, volunteerism proved ineffective.

Ultimately, as the Great Depression worsened, Hoover finally acquiesced to demands for federal government aid. In 1931, President Hoover called for Congress to provide $423,000,000 for public works projects, while calling upon state and local governments to increase their own public construction efforts.[xxxvi] Unfortunately, this increase was not enough to stymie the depression and Hoover became even more reluctant to increase national debt through providing federal aid. However, in early 1932, Herbert Hoover signed a new bill establishing the Reconstruction Finance Corporation. The RFC would grant federal loans to financial institutions and businesses while also funding local public works and aid programs.[xxxvii] Once again, this attempt was unsuccessful. Instead of helping small businesses and communities, federal loans were only given out to large business and banks. The RFC also only gave out 10% of its funds allotted for local relief efforts and 20% for public works because as author Alan Brinkley wrote,

"at Hoover's insistence it only helped finances those public works projects that promised to pay for themselves."[xxxviii] By the end of his term in 1932, Americans were angry at Hoover, blaming him for the continuation of the depression. This anger was the foundation of the political rise of FDR.

Call to Action

Delegates, the year is 1933, and Franklin Delano Roosevelt has just been inaugurated as President of the United States of America. As his revered Brain Trust, you must help the president formulate the economic and social policies that will become the New Deal. President Roosevelt has asked that the policies be grouped into three different phases: relief, recovery, and reform. The first phase, Relief, will be focused on providing aid to the unemployed and impoverished. This will included public employment programs as well as efforts to improve conditions for the poor. Policies under the Recovery stage will concentrate on bringing the economy back to normal after the Great Depression. This will regulation of the farming and manufacturing industries, as well as, attempts to fix issues plaguing the economy like deflation. The third phase, Reform, will work to reform the country's financial system and enact long-lasting welfare programs to act as a safety net for future crises. The country is in dire need of change and it is your job as members of the Brain Trust to create this change and help save the country from sinking deeper into this depression.

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