

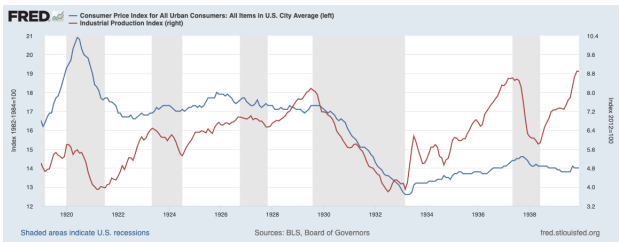
# Podcast Slides

Harold Cole  
University of Pennsylvania

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# 1920s and the Start of the Depression

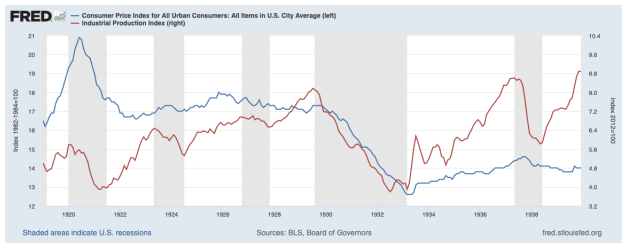
Figure: Overview 1920s and 1930s



- WW1 ends on Armistice Day Nov. 1918
- There is a large inflation during the war which is followed by a sharp deflation, and stable prices thereafter.
- IP falls during the deflation but rapidly recovers going into boom years of the 1920s

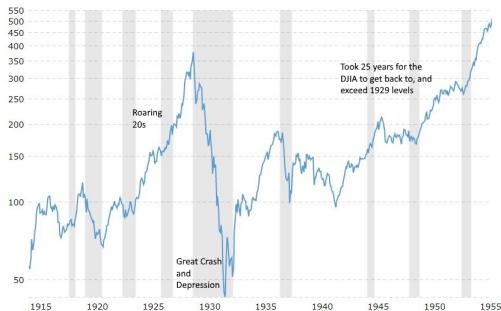
# 1920s and the Start of the Depression

Figure: Overview 1920s and 1930s



- Industrial production peaks in July 1929, falling steadily between 1929 and 1933.
- Starting in 1929, Hoover get many large employers to make a no wage cut pledge.
- Prices begin to decline in 1930, bottom out in 1933, before very slowly rising for much of the rest of the 1930s.
- There is a second downturn in 1937/8.

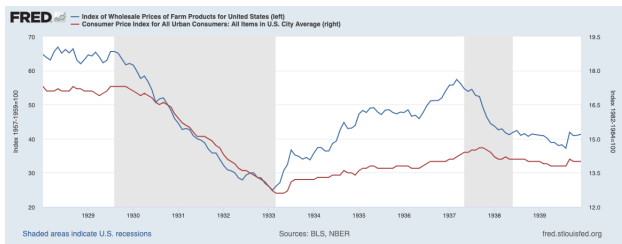
Figure: The Roaring 20s and the 1930s



- The Fed raises the discount rate from 5 to 6 percent in August of 1929 to prevent inflation and protect the gold standard.
- The Stockmarket which had had a huge boom peaks in early September and has a huge crash, not returning to its peak for 25 years.

# 1920s and the Start of the Depression

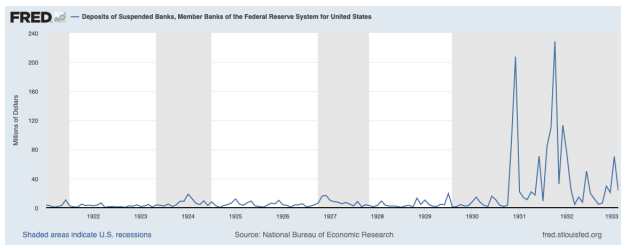
Figure: The 1930s



- Farm prices fall more during the deflation, but recover soon and faster in 1933.
- In 1930 the drought that would become the Dust Bowl begins.
- Also in 1930, Hoover puts in Smoot-Hawley tariffs setting off various trade wars and a collapse in international trade.
- The Revenue Act of 1932 raised United States tax rates across the board, with the rate on top incomes rising from 25 percent to 63 percent. The estate tax was doubled and corporate taxes were raised by almost 15 percent.

# Banking and the Start of the Depression

Figure: Bank Suspensions During this Period



- The deflation, collapse in agriculture, and other shocks lead to a huge upsurge in bank suspensions.
- The first wave is in 1931. With other waves in 1932.
- The failing banks are typically small rural banks.
- 1932 set-up the Reconstruction Finance Corp. to make loans to business, support the banks and local governments.

# FDR becomes President March 1933

- 1 March: the Emergency Banking Act temporarily closed all banks. Ends prohibition. Creates Civilian Conservation Corps which goes on to hire 3 mill.
- 2 April: 19 leave gold to begin inflation.
- 3 May: Agricultural Adj. Act pays farmers to take land out of production. Creates Tennessee Valley Auth.
- 4 June: Glass-Steagal Act and Federal Deposit Insurance Corp. National Industrial Recover Act with created the NRA, acted to raise wages, promote collusion to raise prices and limit entry
- 5 1933: Streamlined RFC and increase funding.
- 6 1934: Sets up Securities and Exchange Commission to regulate stockmarket.
- 7 1935: National Labor relations Act/Wage Act protected workers rights and created NLRB. Social Security Act.
- 8 1936: Raised top tax rate to 79 percent.
- 9 1937: Set's up Fannie Mae to create secondary market for mortgages.

# Inflation after 1933

Figure: US leaves Gold



- The policy of re-inflating started with leaving gold, was preannounced and clearly understood. CPI turns up after IP while WPI is simultaneous.



# New Deal and Labor Policies

- Civilian Conservation Corps (1933-42) was an employment program for young unmarried men (orig. 18-25 then 17-28) manual jobs in rural areas.
- Civilian Works Administration: short-term job creation during the winter of 33-34. Mainly construction jobs for buildings and bridges and roads.
- National Industrial Recovery Act of 1933: allowed president to regulate industry to promote fair wages and stimulate economy.
  - Industrial codes to regulate competition and promote trade union rights. Included price regulation.
  - Declared unconstitutional in May 1935.
- Continued NIRA policies with the National Labor Relations Act and lax antitrust enforcement.
  - Increase union bargaining power. Created National Labor Relations Board to enforce policies.
  - Sit-down strikes.
  - Evidence of extensive collusion continuing.

Table: Some Data on The Great Depression

Series	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Output	100.0	87.4	78.1	65.2	61.9	64.6	68.1	74.9	76.0	70.6
Money Stock	46.60	45.73	42.69	36.05	32.22	34.36	39.07	43.48	45.68	45.51
Output per Hour	100.0	95.3	95.2	89.4	84.8	90.3	94.8	93.7	95.1	94.6
Total Private Hrs.	100.0	91.5	82.8	72.4	70.8	68.7	71.4	75.8	79.5	71.7
Price Level	100.0	96.8	87.9	78.2	76.5	83.0	84.6	85.0	89.1	87.0
Real Man. Wages	100.0	101.9	106.0	105.3	102.5	108.8	108.3	107.2	113.0	117.4

- Source = <https://researchdatabase.minneapolisfed.org/collections/gh93gz52t/>
- Series are rel. to adult pop. and detrended where appropriate.
- Productivity recovers rapidly after 1933, but labor does not.
- This probably is due to long term distortions that were introduced.
- Initial insurance is important.
- Wage rigidity and deflation initially followed by labor market policies seem to have distorted manufacturing wages.
- Getting a rapid start back up seems to be the key lesson from the Depression.

# Cartelization and Labor Policies 1930s

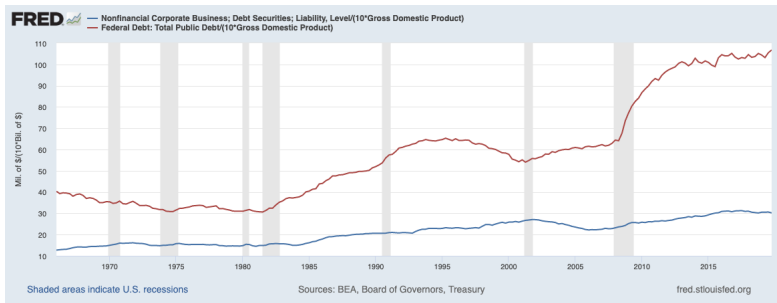
## Cartelization Policies included

- expanding industrial cartels
- government wage and price fixing
- increasing worker bargaining power

## Examples of these policies during the period

- US: Hoover's Nominal Wage Maintenance and Roosevelt's New Deal
- Italy: Mussolini's Corporatist Policy and Fascist labor union
  - Fascist labor unions set wages and cartels expanded and created.
  - Early on promoted high real wages through nominal inflexibility. Then lower real wages even below productivity.
  - In 1933 new law prohibited plant expansion or creation.
- Germany: Hitler's New Plan
  - Cartelization and Unionization in 1930s makes wages downwardly rigid and real wages rise with deflation.
  - Hitler expands cartels and dissolve unions, created government boards to set wages.
  - Real wages fall sharply and nonmarket mechanism create to allocate labor.

Figure: Debt Load Going Forward



- Unlike the Gr. Dep., the debt load going forward is going to be very large.
- US currency and US debt play a special role and interests rates are low,
- But we have opened the door to a self-fulfilling debt crisis.