The History of the Twentieth Century
Episode 259
"The Great Crash II"
Transcript

[music: Fanfare]

After the dramatic fall of stock prices in New York in October 1929, US business and political leaders struggled with what it meant. In the past, stock market crashes had presaged economic slowdowns, though at this time the causal link was not well understood.

On the other hand, some argued that the end of the stock market bubble was a healthy development, but even they could not deny the widespread national anxiety that followed the crash. As unemployment climbed and the position of farmers went from bad to worse, the US government struggled to find the right response.

Then things got really bad.

Welcome to *The History of the Twentieth Century.*

[music: Opening Theme]

Episode 259. The Great Crash, part two.

The United States government of our time monitors the US economy closely, collecting huge amounts of data on everything from durable goods sales to the average number of hours Americans work per week. This was not true in 1929, and to a much greater extent than today, President Hoover and his Administration were flying blind.

Economics is not only about numbers, though. It's also about attitudes, emotions, and sentiments. Part of a US President's job is to read the national mood and to talk up the national economy. Rosy estimates of future growth can inspire confidence in consumers and investors which can in turn make those estimates self-fulfilling. In that respect, Herbert Hoover was ill-suited to be the nation's cheerleader. An introverted and dour man, often impatient with other people, and not noticeably gifted as a public speaker, Hoover was more comfortable talking about facts and figures than in showing empathy with workers who'd lost their jobs, as millions did in the months following the crash. His wife attributed this to his background as an engineer, and she was probably right. An engineer-politician? Who ever heard of such a thing?

Hoover's Treasury Secretary, Andrew Mellon, believed that the collapse of the stock market bubble and the economic slowdown that followed were healthy developments. Prices had been too high. Wages had been too high. Businesses had been overextended. A readjustment was needed, painful perhaps, but necessary. Weak businesses would fail, surplus workers would lose their jobs, but a stronger economy would eventually emerge.

Hoover largely agreed with Mellon's assessment, except for the part about wages. The Roaring Twenties had seen the already robust US economy grow rapidly. America was now the world economic powerhouse. This was largely due to technological innovations that sharply increased American productivity, innovations like internal combustion, electrification, and mechanized farming. This meant that American workers could be more productive than workers anywhere else in the world, which should also make them the highest-paid workers in the world. Thanks to modern technology, democratic values, and a can-do spirit, the US could have it all. Right?

On November 21, 1929, four weeks after the crash, the White House hosted a summit meeting of America's leading industrialists: Walter Gifford, president of AT&T. Pierre DuPont, the munitions-maker. Owen Young of RCA, the premier tech company of the day. Henry Ford of Ford Motor Company, who had made the automobile a middle-class commodity. Alfred Sloan of General Motors, the company that would soon surpass Ford to become the world's leader in automobile production. Hoover met with these titans of industry to discuss business's response to the crash. He exhorted them to maintain their payrolls and not to slash jobs or wages. Labor was not a commodity, like wheat or steel, that could be neglected—cut back upon, or stashed in a warehouse until demand recovered. Labor was human beings, who could and would suffer if laid off. Besides, cutting wages and jobs would only reduce consumer demand even more, magnifying the shock and slowing the economy further.

Hoover's message was well received. Henry Ford did him one better, announcing that he would increase wages at his company, from $5 per day to $7 per day. Remember when Ford made such a stir by announcing the $5 daily wage, episode 132? That was in 1915. In the nearly fifteen years since then, inflation has shrunk the value of that $5 wage so much that the new $7 wage still doesn't bring workers back to their 1915 level, but it was welcome news all the same. Ford's announcement got more press attention than everything else said at the meeting put together.

The year 1929 was not a good year for farmers either, not in America or anywhere else. Throughout the Roaring Twenties, mechanization was making farms more and more productive, but also contributing to falling prices. Farmers were bringing in record harvests, but still had trouble making ends meet. Then 1929 brought bumper crops, not only in the US but in other major agricultural countries like Canada and Argentina, causing prices to fall further. Then came the stock market crash. Falling prices spread from the stock market to the commodities market.

Some suggested the government should set minimum prices for agricultural commodities, and support those prices by buying up surpluses and holding them until the price rose again. This idea was antithetical to the pro-business, free-market party the Republicans had become. Republicans denounced this kind of talk as government getting into the agriculture business, but in 1929, Congress met the farmers halfway, passing a bill creating a farm board that would use loans and credits to create incentives for farmers and coops to hold and manage their surpluses themselves which, let's face it, still amounts to government getting into the agriculture business.

Herbert Hoover's other big idea to prop up agricultural prices and help farmers was to increase tariffs on agricultural imports. Alas for Hoover, the Republicans in Congress, his own allies, proved to be his worst enemy. Democrats were ideologically opposed to tariffs, but Republicans were not and they held a strong majority in Congress. Still, while farm state Republicans liked the farm tariffs, Eastern Republicans did not, but they did like tariffs on manufactured goods, which provoked bitter infighting among Republicans from East and West and drew taunts from Democrats that the supposed leader of the Republican Party, the President, couldn't keep his own supporters on the same page. Congressional Republicans eventually struck a compromise: they would raise tariffs on everything. America's trade partners weren't very happy with this turn of events. Germany's economy had begun slumping in 1927; now the slowing US economy was an additional drag on international trade. Tariffs would only make matters worse, foreign governments warned.

The Chief Justice of the United States and former President, William Howard Taft, now 72 years old and in poor health, resigned from the bench in January 1930. Taft had administered the oath of office to Hoover in March 1929 and on that occasion had trouble remembering the words. Still, he resisted leaving the Court out of fear that Hoover would choose Associate Justice Harlan Stone, a Calvin Coolidge appointee, to replace him. Stone, you'll recall, had been Coolidge's Attorney General and therefore Hoover's Cabinet colleague for a time. He was proving to be a liberal on the Court, much to Taft's distress. Taft spoke of Bolsheviks taking over the Supreme Court if he stepped down; you have to think that if he saw Calvin Coolidge, Harlan Stone, and Herbert Hoover as Communists, then definitely it was time to retire. Soon his declining health forced him to, and passed away less than two months later, in March 1930.

Hoover was in fact leaning toward appointing Stone Chief Justice and then someone else as a replacement Associate Justice, and the White House had even announced that Stone would get the nomination. But an hour later, the White House reversed itself and said that Hoover would appoint Charles Evans Hughes. You'll remember Hughes as a former Supreme Court justice who resigned to run for President in 1916 and came within a whisker of ousting Woodrow Wilson from the White House. He'd served Harding and Coolidge as Secretary of State capably, so he was a reasonable choice. In normal circumstances, the nomination of Hughes would have been uncontroversial, but in these circumstances, with Stone seeming to get the nomination first, only to have it abruptly yanked away and given to Hughes, upset Progressives. For them it seemed like evidence the fix was in, engineered by business groups who preferred Hughes to Stone. By some accounts, it was Taft himself who lobbied for Hughes. Whatever had happened, the clumsy way it was handled made Hoover look like the pawn of unseen interests. And it was entirely unnecessary. It was a self-inflicted wound; what the British like to call an "own goal."

A minor blunder perhaps, but just the first of several that tarnished Hoover's reputation in 1930. The very same day that former President and Chief Justice William Howard Taft died, Associate Justice Sanford, appointed by Warren Harding, also died, giving Hoover a second vacancy to fill. He fumbled this one even worse, appointing John J. Parker, a Circuit Judge from North Carolina. Parker was bitterly opposed by labor unions for his anti-labor record on the bench, and even more bitterly opposed by the NAACP. Parker had run for governor of North Carolina in 1920, and in the course of the campaign had declared, "The participation of the Negro in politics is a source of evil and danger to both races and is not desired by the wise men in either race or by the Republican Party of North Carolina."

The NAACP wrote to Parker and asked him if he stood by that view, ten years later. Parker declined to reply.

In our time, a comment like that would automatically disqualify a person from public office. (I hope!) Even in 1930, it was enough to raise eyebrows. It might not have been enough on its own, but the combination of labor unions and the NAACP both lobbying furiously against Parker, led in the end to his rejection by the Senate by one vote, 39-41. It was the first time since 1894 that the US Senate rejected a Supreme Court nominee.

Having been burned by that nomination, Hoover turned to Philadelphia lawyer Owen J. Roberts for his next attempt. Roberts, you'll recall from episode 229, was the Republican half of the team of lawyers Calvin Coolidge had selected to investigate and prosecute the Teapot Dome scandal. His work on those prosecutions had left Roberts well known and highly regarded, and his nomination passed the Senate easily. On the Court, Roberts would be a conservative-to-moderate swing vote.

Hoover's succumbing to the temptation to nominate Parker was not an isolated incident; it was a symptom of a deeper problem. In 1928, Hoover had been the first Republican Presidential candidate to win Virginia or North Carolina since Reconstruction, and the first Republican to win Texas ever. Which led Hoover to embrace the project of building a white Republican Party in the South.

We've talked about this before on the podcast. Because Republicans were the party of Lincoln and the party that had prosecuted the Civil War, in the postwar South, basically the Republicans were the Black party and the Democrats were the white party. Beginning in the 1870s, white Southerners began a campaign of legal and extralegal measures to prevent Black Southerners from voting. By 1900, the right of African-American Southerners to vote had been effectively extinguished, and white Democrats were solidly in control of elected offices across the Southern states.

Republicans might have responded to this erosion of their party in the South by fighting against white Democratic efforts to deny voting rights to African Americans. Instead, they responded by re-shaping the Republican Party in the South to make it more competitive with the Democratic Party. Which is a euphemistic way of saying, make the Southern Republican Party whiter.

The Republicans in the South had Black party organizations and white party organizations and integrated party organizations. But in fits and starts, beginning with the McKinley Administration in 1896, and continuing, with varying degrees of enthusiasm, through the Roosevelt, Taft, Harding, and Coolidge Administrations, Republicans worked to make the party whiter to appeal more strongly to white voters. That's what moved John Parker to swear back and forth that the Republican Party was totally against allowing African Americans to vote back in 1920.

Hoover went all in on this project. He was the first Republican President in decades not to call on Congress to pass a Federal anti-lynching bill. Not that any of them ever *got* that bill, call or no, and indeed the United States never got a Federal anti-lynching law, owing to generations of Southern Senators who repeatedly resorted to the Senate's arcane filibuster rules to prevent passage.

Hoover had also chosen Tennessee Republican Claudius Huston to serve as chairman of the Republican National Committee. Huston was a business leader and Republican fundraiser, and his appointment was a signal that the Republicans were serious about going for the Southern vote, but it soon emerged that Huston had been lobbying to privatize the government's power plant on the Tennessee River, built during the war, and that he had been receiving corporate contributions to fund this lobbying, and that some of those corporate contributions had found their way into Huston's personal stock-trading account, which had been used to buy stock during the stock market bubble. In the post-crash economic slowdown, the revelation that one of the President's top political supporters had been using corporate contributions to trade stocks for his personal enrichment was unseemly to say the least, further tarnishing Hoover's reputation.

The post-crash economic slowdown was also giving Hoover headaches on another front: this tariff bill working its way through Congress. Remember it had begun as a proposal for agricultural tariffs to protect farmers, but Eastern Republicans wanted a broader-based tariff bill that would include imports of manufactured goods. Now that US manufacturing was declining and unemployment rising, the argument in favor of higher tariffs all around was winning the day.

Western Republicans balked. It wasn't just a policy dispute; after the Teapot Dome revelations, Republicans were developing a reputation as a party beholding to big money and big business, and these new tariffs only seemed to confirm the worst. Herbert Hoover proposed that the tariff bill delegate to the executive branch's Tariff Board the power to raise and lower tariffs selectively, based on economic and diplomatic considerations of the moment. The Board would be able to respond more rapidly and in a more focused way to trade conditions that Congress ever could. But Hoover could not get his own party's members in Congress to go along with that plan.

What emerged from these debates in Congress was the Smoot-Hawley Tariff Act of 1930, named for its House sponsor, Oregon Republican Willis Hawley, and its Senate sponsor, Utah Republican Reed Smoot, last seen on this podcast passing notes with Edward Lawrence Doheny in a Senate committee room during the Teapot Dome scandal. The final version of the bill passed in June 1930 and was sent to the White House. Far broader than the original proposal, Smoot-Hawley called for tariff hikes on 887 specified categories of imports.

The public reaction to the bill was negative. Hoover received a letter signed by 1,028 economists calling on him to veto Smoot-Hawley. Henry Ford called it "economic stupidity." Thomas Lamont of J.P. Morgan called it "asinine." Almost two dozen of America's international trading partners protested the bill to the US State Department. Many threatened retaliatory tariffs on US exports if the bill became law. Herbert Hoover himself privately denounced the bill as "vicious, extortionate, and obnoxious."

Then he signed it.

He'd felt as if he had no choice. The division among Republicans in Congress had been embarrassing. Democrats exploited it to question Hoover's leadership. The same month Smoot-Hawley finally passed Congress, *Harper's* magazine published an influential cover article by Progressive journalist Walter Lippmann titled, "The Peculiar Weakness of Mr. Hoover," that posed the question: why was Herbert Hoover, successful businessman, humanitarian, and able administrator under three previous Presidents, turning out to be such a disappointment as President himself? Lippman's conclusion: that the man who had proven so capable when he was put in sole charge of a government department struggled when called upon to mediate quarrels within his own political coalition. When that happened, his natural caution emerged and he tended to draw back and await developments, even when the situation called for decisive leadership.

And so, Herbert Hoover signed the Smoot-Hawley Tariff Act into law, despite his misgivings. Over the decades since, Smoot-Hawley has been blamed as a major contributor to the worsening of the Great Depression that had already begun. US trading partners began imposing retaliatory tariffs at once, beginning with Canada. The mere fact that the US was running a trade surplus at the time, that is, it was selling more in exports than it was buying in imports, tells you that America had more to lose than to gain from a tariff war. Over the next couple of years, international trade plummeted, worsening the Depression. In the US, unemployment was 8% when Smoot-Hawley was signed. A year later, it was at 16%.

In our time, economic historians debate the impact of Smoot-Hawley. Everyone agrees it was bad, but opinions range from moderately bad to very bad. They best way to think about it is one piece of a larger problem. Like the stock market bubble, like the British struggle to restore the gold standard, like the German economic slowdown and the quarrels over reparations and war debts, Smoot-Hawley was one more setback to a global economy still struggling to right itself after the upheavals of the Great War.

[music: Beethoven, *Symphony No. 9*]

Just as Hoover struggled with political debates within his own party, he struggled with his role as America's chief economic booster. Hoover encouraged private businesses to hold onto their workers and even hire new ones, and urged state and local governments to undertake public works projects to alleviate unemployment. But he opposed similar initiatives at the Federal level when put forth by Democrats in Congress, arguing as early as January 1930 that the worst was over, that industrial production was on the rebound, and unemployment numbers would soon begin to drop. Hoover was not above cherry-picking economic statistics to make the future look rosy. In truth, Hoover was loathe to reverse the progress Calvin Coolidge had made in bringing the Federal budget into surplus and paying down the national debt.

By the summer of 1930, he was already speaking of the economic slowdown in the past tense. In June, the same month he signed Smoot-Hawley, Hoover met with a delegation from the National Catholic Welfare Council, who had come to him to plead for public works projects to aid the unemployed. Hoover told them, "Gentlemen, you have come sixty days too late. The Depression is over."

In this regard, his greatest adversary became the economist and feminist Frances Perkins. Perkins, who had studied chemistry at Mount Holyoke College and economics at the Wharton School of the University of Pennsylvania, had served as head of the New York office of the National Consumers' League before the war. She had been an eyewitness to the horrific Triangle Shirtwaist Factory fire in New York in 1911, in which 146 workers, mostly women, had died. Stairwells and exits from the building had been locked to prevent workers taking breaks; this was responsible for the high death toll.

Perkins became a labor advocate, and in 1930 she was New York Labor Commissioner in the administration of Governor Franklin Roosevelt. As such, she had access to reliable data on unemployment in New York and released her own information, showing that unemployment was bad and getting worse. Hoover's Labor Secretary Jim Davis accused her of playing politics with the unemployment problem. In 1930 America, as in many other times in American history, your view of the state of the economy was taken as a litmus test of your political loyalties.

The political temperature of the nation was taken in the November 1930 mid-term elections, and the result was a strong rebuke of Hoover and the Republicans. Democrats picked up 52 seats in the House of Representatives and eight in the Senate. In the Senate, this resulted in an even split of seats, with Vice President Curtis as the tie-breaking vote. In the House, the initial result left the Republicans in control with a one-seat advantage, but then the Democrats picked up two more seats in special elections, putting them in control of the House of Representatives for the first time since the 1918 mid-terms, during the final days of the Great War.

In New York, Frances Perkins' boss, Governor Franklin Roosevelt, who had barely won the office two years ago, was reelected in a landslide. Roosevelt's approach to the economic downturn differed sharply from Hoover's. He saw it as a crisis and proposed a raft of state programs including public works, aid to farmers, unemployment insurance, emergency relief for the poor, old-age pensions, and more. Roosevelt declared that "progressive government by its very terms must be a living and growing thing, that the battle for it is never-ending and that if we let up for one single moment or one single year, not merely do we stand still but we fall back in the march of civilization."

The contrast between President Hoover and Governor Roosevelt could hardly have been starker. The man Walter Lippmann had once proposed as Hoover's Vice Presidential running mate was now emerging as his most likely challenger in 1932.

But the worst news of the year 1930 was yet to come. Last year, 1929, had seen American farms produce bumper crops, which was bad news for farmers. Prices were already so low farmers were barely scraping by; the stock market crash produced a panic that spread to the commodities market, further weakening prices. The only thing worse for farmers than a bumper crop is a bad one, and that's what they got in 1930, as the central United States suffered the beginnings of a serious drought that would last for years.

Farmers rely on loans. Typically, they borrow money throughout the year for seed, fertilizer, and equipment and pay off those loans at harvest. But when the 1930 harvest came in, or didn't come in, as it increasingly didn't, they couldn't pay their loans. Farmers were going destitute, nowhere more so than Arkansas, which saw farmers lining up at Red Cross stations for food and children dropping out of school because their parents couldn't afford to buy them clothing or shoes. Farm families were not only suffering, reported the astonished American Red Cross; they were actually starving. The spectacle of farmers, of all people, begging for food, in one of the world's richest nations, one of its leading agricultural exporters, the country that boasted it had the world's highest standard of living, shocked Americans. It was hard to grasp how such a thing was even possible. After the crash and a year of increasing unemployment, it seemed America had still not yet hit bottom, whatever President Hoover or Henry Ford had to say.

Remember John Maynard Keynes's quip about how if you owe the bank a hundred pounds, you have a problem, but if you owe it a million pounds, the bank has a problem? Collectively, these suddenly impoverished farmers owed their banks a lot of money they suddenly couldn't pay. In November and December 1930, more than 600 American banks shut down, most of them in the drought-afflicted region. There was no such thing as deposit insurance back then, so if a bank failed, its depositors were out of luck. An individual or a family could wake up one morning to learn that their life savings had disappeared overnight. Many of these closures were of small, rural banks, whose failures were not serious in the grand scheme of things, though they surely brought misery to the communities where these banks had operated.

If you'll indulge me for a moment of family history, my own grandfather, whose name was Thomas Chill, died in March 1931 after he was hit by a truck on US Route 66 in Illinois, leaving my widowed grandmother with five daughters, the youngest of whom was my mother. My grandmother successfully sued the operators of the truck and got a cash settlement, but then lost the cash when the bank where she'd deposited it went under. So in my family's case, the death of my grandfather was a tragedy, but the bank failure enlarged it into a disaster. That's just one story; multiply that by a couple of million families and you get some idea of the magnitude of the economic catastrophe we call the Great Depression.

In November 1930, the investment firm of Caldwell and Company of Nashville, Tennessee, known at the time as the "J.P. Morgan of the South" collapsed. The company had been in trouble since the Crash of 1929. It acquired the National Bank of Kentucky, which gave it a cash infusion, and that bought the company some time, but by November, it was finished. The finances of Caldwell and Company were intertwined with many other banking and financial institutions in the South. When it fell, it took down ten banks in Tennessee, 15 in North Carolina, and 70 in Arkansas along with it.

Still, these were regional problems, limited to the agricultural South and Midwest. Large Eastern financial institutions had weathered the stock market crash and kept the doors open…until December 1930.

The oddly-named Bank of United States was founded in New York City in 1913 by Joseph Marcus, a Jewish immigrant from the Russian Empire who had arrived in New York in 1879. Marcus began his life in New York as a garment worker and made good, until by 1913 he was able to open this bank on the Lower East Side. Most of his employees and customers were Jewish immigrants, small depositors attracted by the bank's reputation for honesty and for giving a fair shake to immigrants who often received second-class treatment in other New York businesses. The bank's name probably contributed to its success, inducing immigrants new to the country and accustomed to the European way of doing things to believe that this was the official US government bank, like the Reichsbank or the Bank of England. It was not. Laws would later be passed to prohibit names like this one that imply a link to the US government where none actually exists, but no such law was on the books in 1913.

Joseph Marcus retired from the day-to-day operation of the bank in 1919, at which time it had five branches. He died in 1927. Afterward, his flamboyant, high-flying son, Bernard Marcus, took over management of the bank. Under Bernard, the bank expanded rapidly during the Roaring Twenties, acquiring a number of other banks until it was the third-largest bank in New York and the 28th-largest in the country, with 62 branches across the city.

Bernard Marcus funded much of this growth by selling bank shares to the bank's own officers, employees, and depositors at $200 per share. To make the shares more appealing, Marcus pledged that the bank would buy back its stock at that same price anytime within the first year. Then came the Crash. Afterward, Bank of United States shares were selling for $60, but the bank kept its word during most of 1930, although it was secretly lending itself depositors' money to make good on those share buybacks. That can only get you so far. Also, the bank was heavily invested in real estate loans, and New York real estate prices were plunging.

By December, the bank was rumored to be in trouble. The New York Fed tried to engineer a merger with Manufacturers Trust, but the deal fell through at the last minute on suspicions that Bank of United States was in worse shape than its official balance sheet indicated.

These suspicions proved true a mere two days later, on December 10, 1930, when a disgruntled customer of the bank walked into one of its Bronx branches and demanded the bank buy back his shares. The manager tried to convince him that the bank's shares were still a good value at $60 a share. They were bound to go up again, and in the meantime, the bank was still paying dividends, so how can you lose?

This customer—I don't know his name, but clearly he was a man not to be trifled with—would not be swayed. He wanted to sell his shares at the promised price, right now. The manager refused. The customer took his grievance public, announcing to the world that Bank of United States could not meet its obligations.

Given the hundreds of other bank failures already in the news, this was enough to prompt a run on the bank. By the end of the day, thousands of depositors had made hasty withdrawals totaling something like two million dollars, including one customer who was said to have waited in line two hours to close out an account worth two dollars.

That evening, New York's financial elite, including our old friends Thomas Lamont of J.P. Morgan and "Sunshine Charlie" Mitchell of National City Bank, met to discuss the situation, just as their predecessors had done during the Panic of 1907, episode 43. They came close to a deal to inject $30 million into Bank of United States, but again at the last minute, this deal also fell through. As we saw back in that episode, a financial crisis can make even a sound bank temporarily unsound, if asset prices drop and depositors panic. And Bank of United States was not sound. There was also an element of anti-Semitism involved. The banks depositors were, in the words of one banker, "foreigners and Jews." If they had chosen their bank poorly, that was their problem.

Joseph Broderick, the New York superintendent of banks, tried to change their minds. Bank of United States was a large institution. It had hundreds of thousands of small depositors. If it failed, all those middle- and working-class New Yorkers would take losses they could ill afford. The shock waves would strike every other financial institution in the city. And beyond.

He was absolutely right about that, but he failed to change their minds. The next morning, the bank closed. It was the first failure of a New York financial institution since the fall of the Knickerbocker Trust Company, which had set off the Panic of 1907.

There was actually a lull in bank failures in the spring of 1931, but by summer, new regional eruptions of insolvency appeared. Chicago experienced a collapse in real estate prices, which undermined a number of Illinois banks, including the one my grandmother was using. Every bank in Toledo, Ohio but one closed, and 70% of the city's deposits were gone just like that. The one bank that survived only did because of an infusion of $11 million from the Federal Reserve Bank of Cleveland.

In 1931, stashing your life savings in the mattress was not a metaphor. Millions of American families were doing exactly that. The experience of the past 18 months had shown that no investment was safe. Not stocks, certainly. Not bonds or commodities. Now banks were revealed to be equally unreliable. As I said, even a solvent bank can go insolvent if there's a sudden drop in asset prices. The bank's balance sheet tips in the wrong direction. Collateral that used to be enough to cover a loan no longer covers it. Recent experience had shown this could happen anywhere, anytime.

Bank runs forced even healthy banks to cut back on their lending. About $5 billion worth, an enormous sum at the time. It's the nature of banking, especially during a period of deflation and falling prices, that for every dollar of deposits withdrawn, the bank may need to call in two or three dollars in loans, or likely even more, to protect its reserves.

Inflation and deflation aren't only about the quantity of money in circulation. They are also about the velocity of the money. The faster money moves, the more impact it has on the economy. In 1931, US dollars slowed to a crawl, further deflating the US economy. Prices fell 20%, and even at those prices, there were fewer buyers. Most businesses had surplus capacity and laid off workers. Investment shrank to nothing. Why would you expand your factory when you can't sell the stuff you already make?

Debtors in particular suffer during a deflation. They have to pay back loans with dollars now worth 20% more than the ones they borrowed. You can meet your repayment schedule and still end up behind. You can try to reduce your debt, but you need to sell assets to raise the money, and all your assets—stocks, bonds, equipment, real estate—all of these have fallen in value. When people sell them to raise cash, values drop further still.

While panicked Americans hoarded cash, the US still held the bulk of the world's gold reserves. Other countries that needed to build up their gold reserves, like Britain and Germany, could only accomplish this by selling to America and between Smoot-Hawley and the bank panic, Americans were in no mood to spend their dollars.

The Great Depression began in America, but the precarious state of the international economy insured that it would not be contained to America. The country hit hardest, besides the US, would be Germany; Germany, which has been stuck in its own recession since 1927, faces a coming uptick in its reparations obligations, and which has over a billion dollars in short-term loans due to American banks. With the financial crisis raging in the US, American banks are in no position to roll over those loans, and the German foreign debt problem is about to get far, far worse.

But that is a story for another episode. We'll have to stop there for today. I thank you for listening, and I'd especially like to thank Akin for his kind donation, and thank you to Ben for becoming a patron of the podcast. Donors and patrons like Akin and Ben help cover the costs of making this show, which in turn keeps the podcast available free for everyone, so my thanks to them and to all of you who have pitched in and helped out. If you'd like to become a patron or make a donation, just visit the website, historyofthetwentiethcentury.com and click on the PayPal or Patreon buttons.

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And I hope you'll join me next week, on *The History of the Twentieth Century,* as we shift the focus from the United States to Germany. The economic downturn Germany was already experiencing got much worse when the US economy crashed. There was a shakeup in the government, and the new leadership tightened the belt and brought to Germany a harsh degree of austerity. The Hunger Chancellor, next week, here, on *The History of the Twentieth Century.*

Oh, and one more thing. I can't end today without pausing to review the legacy of William Howard Taft. I've already given you my assessment of the 27th President. He was a middling President, not of the stature of a Roosevelt or Wilson, but certainly a more able President than a McKinley or a Coolidge. He was a moderate-to-conservative person. He was an ardent Progressive when it came to trust-busting, though his Dollar Diplomacy set the stage for reducing small Latin American countries into US economic protectorates.

He was the first and so far only US President also to serve on the Supreme Court, where again, he was moderate to conservative in his decisions, although his labeling Harlan Stone a Bolshevik was just plain crazy.

Taft was the first US President ever to be elected to that post without first either having held a lower elected office or serving as a general officer in the US Army. Herbert Hoover was the second President with that distinction. Both of them suffered serious losses in their first mid-term elections and then lost their bids for re-election. Maybe that tells us something. The US will not put another President with neither electoral nor military experience into office until Donald Trump, with a similar outcome.

Hoover and Trump created a lot of their own political problems, but Taft’s biggest headache was his mentor, Theodore Roosevelt, who had turned on him with a vengeance and destroyed Taft’s re-election chances. Why Roosevelt suddenly decided that his former protégé had become history’s greatest monster is a puzzle I can’t solve, but Roosevelt’s disdain for Taft badly hurt his reputation at the time, and even today, for all his faults, Taft remains underrated, his reputation still tarnished by Theodore Roosevelt’s turn against him.

In our time, William Howard Taft is probably best remembered for a story that isn’t even true: that the 350-pound President got stuck in the White House bathtub. That never happened, although it is true that when he was President, Taft ordered an extra-large bathtub installed in the White House; perhaps that was the source of the legend.

[music: Closing Theme]