

The Great Depression was the worst economic slump in US history, beginning in 1929 it lasted almost a decade. Leitchenberg suggest "there was no single cause of the Great Crash and ensuing depression", however the most influential reasons for the Great Depression was a culmination between the unequal distribution of income & the extensive speculation of the 1920s. Underlying these two dominant influences was Republican government policies of the 1920s under the Harding, Coolidge & Hoover governments. The Republican economic policies of the 1920s contributed significantly to the Great Depression.

Maldistribution of income existed on many levels with US economy. Money was disparately distributed between rich, middle class and poor, and between industry and agriculture. The 1920s was an era of considerable growth

Total national income rising from \$74 billion in 1920 to \$89 billion by 1929, the result of republican economic policy & industrialisation. Yet much of this growth was funded upon the illusion of the decade of economic prosperity and growth, yet 43% of all families throughout the 1920s earned less than \$1500 per year, considered poverty.

In 1929 5% earned 33% of all incomes, the top 0.1% had combined incomes of the bottom 42%. From 1920 - 1929 real incomes rose 9%, yet the top 1% enjoyed real income rises of 75%. Republican gov't policy played a major hand in this maldistribution of income.

The republican economic policies of the 1920s has undertaken with the governments *laissez-faire* approach to economic, political and social issues. Such a *laissez-faire* attitude

is highlighted by Republican president Hoover's philosophy of "rugged individualism" which left society + the economy unregulated and led to the unequal distribution of income. The "Cordidge Prosperity" years were not equally shared. Maldistribution of income was produced considerably within US by Secretary of the Treasury Mellon's tax reductions. Mellon believed in the Hamiltonian principle that 'wealth in the hands of few created general welfare throughout society as capital investment increases'. Thus, the wealthy Americans prospered whilst the working class + poor suffered and the gap between rich + poor widened, maldistribution grew. Such a gap was driven by the 1926 Revenue Act which lowered the top income tax rate from 65-50%, releasing a vast supply of money for the rich, which contributed to the speculative mania of the 1920s, and contributed to the

maldistribution of income. The introduction of the McNary - Hargren Bill, an attempt to dump US surplus agricultural stocks on the world market so as to lower domestic US prices and increase US trade, was vetoed by Coolidge in 1924, 1926 and 1928. This, along with such tariffs as the 1930 Hawley - Smoot Tariff which designed to protect agricultural industry ironically reduced US world trade, led to the maldistribution of income between industry & agricultural sector. This eventually led to the significant problem of overproduction and produced a major reason for the Great Depression. Republican economic policy played a significant role in creating the maldistribution of income which contributed to the outbreak of the Great Depression.

speculation produced maldistribution within US economy. The Republican economic policy of

economic + tax reductions freed up a vast money supply for the rich, which found its way to Wall St. speculation proved the US economy to become reliant on the automobile industry, rich investment and luxury spending - "the prosperity of the 1920s was driven by two great industries which provided employment for millions + absorbed vast amounts of capital investment" - Leitchburg. This produced the illusion of growth within the US economy, it was almost totally reliant on rich investment.

Speculative mania was produced not only by the Republican post tax reductions, but in 1921 by the Florida real-estate boom, an outcome of urbanisation + cycle of rapid urban expansion, many invested in property based on the illusion of growth.

This mania was produced by the Republican post introduction of the Emergency Tariff Act

of 1921, which created protection for urban industry yet neglected rural agricultural products. As rural prosperity declined, total farm incomes falling from \$15.5b in 1920 to \$5.5b by 1933, urbanisation took place and speculation increased. 1920 census recorded 51% of US population urbanised, Republican economic policy was contributing to speculative mania.

Maldistribution meant that not all could satisfy their wants. The solution: let those who wanted to buy purchase on credit. The trend of "buy now, pay later" caught on, debt was no longer socially unacceptable and spending a virtue; "everyone ought to be rich". The laissez-faire Republican economic stance did little to regulate this introduction of credit, contributing to a manufacturing problem. In 1929 60% of cars + 80% radios were purchased on credit, and from 1925 -

1929 outstanding credit instalments doubled ~~from~~ to \$3 billion. Credit began to create a false demand in society, the unregulated Republican economic policy resulted in a surplus emerging.

Overproduction was a significant contributor to the Great Depression, the result of interlocking factors driven by the industrialisation of America. The emergence of consumer products created huge demand, the introduction of credit allowing many to buy these durables, yet once purchased little demand existed for these products. Supply began to catch up with demand, as overproduction emerged employment fell. As revenue fell, with declining sales, wages declined and unemployment increased. Profits + savings were reinvested into expansion, rather than wages and employment, in an attempt to increase production to increase revenue.

* " Prosperity requires consumption +
production + export simultaneously,
but from 1919 - 1929 the 99p
widened ammassley " - Nicholas

Mass production became unsustainable, as production increased and consumers purchasing power declined, a surplus was created.

The highly unregulated industry of US was the result of Laissez-Faire Republican economic policy - this was a significant influence in the Great Depression.

Overproduction led into the agricultural sector, this was fuelled by industrialisation & rural transformation which introduced new technology, new machinery and increased production. This created a surplus, driving rural prices and incomes down with over-supply.

Thus farmers increased production in an attempt to increase their incomes, and overproduction continued. Republican gov policy in many ways rejected the agricultural America, which by 1929 employed 25% of America. The Emergency Tariff Act of 1921 and Coghlan's veto of the McNary -

Hargren Bill in 1924, 1926 and 1928 led to considerable neglect for the agricultural sector, this led to the extensive overproduction of the ensuing Depression outbreak.

Credit proved an easy solution for struggling farmers who could purchase new machinery to improve production with credit instalments. Yet farmers incomes continued to decline and many became overwhelmed by debt & unable to repay their credit debt. This led to the failure of the US banking system.

The American banking system throughout the 1920s was highly unregulated due to republican govt laissez-faire economic policy. Only $\frac{1}{3}$ of all US banks belonged to the Federal Reserve system created by JP Morgan. Many banks were

vulnerable to a 'run on withdrawals' and borrowing 'on the margin', both of which arrived with speculation. The banking system failed so much so, that by 1933 5000 banks had closed with a loss of \$3 billion.

As speculation boomed, many began to borrow 'on the margin', the unregulated financial sector + banking system create the problem of debt deflation from 'borrowing on the margin'. Over-speculation was a product and cause of the illusion of growth with the US economy and led to the outbreak of the depression with the Great Crash - Black Tuesday, 29th Oct 1929 when over 16 million shares were offered for sale, \$8000 million was lost and countless banks closed with solvency + debt problems. The unregulated Republican gov't policies proved the fundamental

business of America to be unsound.

Credit contributed to the unstable banking system, the debt on credit installments which doubled from 1925 - 1929 led to many banks in massive debt, leading to closure.

The Great Depression was the result of a series of interrelating factors, driven mainly by the maldistribution of income and over-speculation within US economy. The Republican economic policy undertaken by the laissez-faire Harding, Coolidge & Hoover governments influenced the build-up, outbreak & causes of the Depression significantly. The Republican got unregulated economic & social approach magnified the key issues of maldistribution & over-speculation of America in 1920s and led to the outbreak of Great Depression 1929.