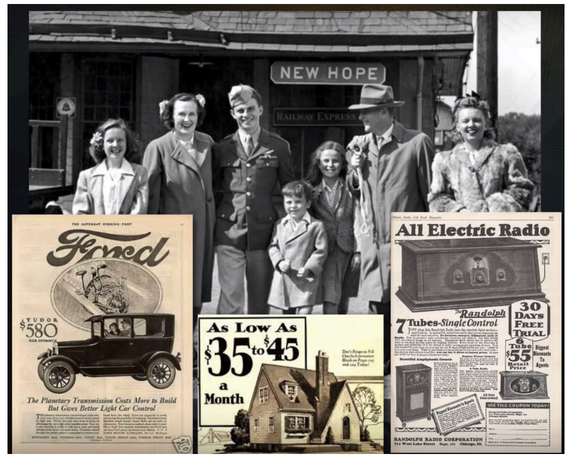
G. The Roaring Twenties



The "Roaring Twenties" were a "boom time": a period of peace, prosperity, and optimism. Everything seemed to be going right.

1. Following **World War I (1914-19)**, and in light of all the industrial progress in America and the belief that everything "regulated" was well-organized, America entered into a period of unprecedented peace and prosperity. It is called the "Roaring Twenties."
2. It was the first time in history when the average person could afford a car, a home, and a wide array of consumer goods. Life was good!
3. One of the features of this sense of optimism was that people were eager to invest their money in the future, rather than saving it for some future setback.
4. One way to take advantage of how great things seemed to be was to invest in the stock market. (The stock market is a market when people can buy pieces of a company. When you own a piece of a company—when you own "stock" in a company—you get paid some money as a reward when it succeeds. You can also sell your stock, and make a profit, if the company succeeds. Of course, if the company fails, you lose money.)
5. Up until 1929, the stock market was booming. People believed that success in investing was guaranteed, and politicians kept saying that everything about the American economy is working perfectly. (Politicians love to take credit when the economy is strong. It helps them to get re-elected.) Then everything went wrong…

H. The Great Depression (1929-39)

1. The "Great Depression" is something that even expert economists cannot agree on. Exactly why and how it happened is an especially difficult problem.
2. One factor is the "boom" that came before. If people are *too* optimistic about the future, they can become irrational about it. In such cases a boom can become greatly exaggerated; it becomes what economists call a "bubble" economy—like in 1929.
3. In addition, even though other parts of the economy were carefully regulated, the stock market was not. Not surprisingly, some people took advantage of this free space to engage in schemes and conspiracies. For instance, there were "trusts" in the stock market called "pools" that would buy a lot of certain stock to make it seem especially valuable, and then when the price went up, sell it at a profit. Such pools were just taking advantage of people's enthusiasm and lack of professional knowledge. Unfortunately, one such pool operated in 1929 on the stock of a great company called "RCA" (now part of General Electric, and still one of the biggest companies in the world).

4. One of the biggest mistakes people made during the bubble was to borrow money to invest in stocks. This is possible, but very risky, of course. When you do it, you are buying stock with money that is not yours. If, and as happened in 1929, *when* stocks drop, you have to sell and pay back the bank no matter what. This can cause many people to sell at the same time, and the stock to "crash."
5. Following just such a crash in 1929, the Federal Reserve and the government were afraid to hand out big clumps of money to banks and investors. This caused many companies and banks to go out of business even though they were regulated.
6. Then the government created a bigger problem. It created a new tariff called the **Smoot-Hawley Tariff** of **1930**, which raised taxes on international trade. Other countries then raised their tariffs and people suffered because of the drop in international trade.
7. Finally, starting in 1934, a drought struck the American prairies lasting about five years. This "dust bowl" period meant that many American farmers were also in trouble at the same time as American industry was regrouping from the crash.
8. Many businesses failed. Many banks failed. Many farms failed. Many workers lost their jobs. The desperation of that moment triggered the desire for a new social contract:

I. The Mixed Economy Social Contract, Part 1: The New Deal

1. In the 1932 presidential election, Americans were faced with a clear choice. President Herbert Hoover's message was that Americans needed to help themselves. Democratic challenger Franklin Delano Roosevelt's competing message was that government was going to help people get back on their feet. This social contract was known as the "New Deal." Roosevelt was elected, and served for three terms.
2. If the private sector could not provide jobs and wages to workers, Roosevelt said, the government would do it. Multiples "alphabet agencies" were created to do this, including the Civilian Conservation Corps (CCC), which gave people jobs to plant trees and build bridges and other infrastructure for national parks, the Tennessee Value Authority (TVA), which gave people jobs to build hydro-electric power projects, etc.
3. If the private sector could not provide financial security to the population at large, the government would do it. The Social Security Administration was created in **1935** to compel all employers to contribute to the retirement savings of Americans.
4. If the private sector could not feed the poor, the government would do it. The government began issuing "food stamps," so the poor could purchase groceries.
5. If privately owned agriculture could not succeed, a government agency, the Agriculture Adjustment Administration (AAA) would step in and purchase produce and decide how to distribute it. (Ironically, one of the AAA programs was to deliberately *destroy* crops in order to raise prices for the remaining crops. Yup; there were people starving in America, and the government had a program to destroy crops!)
6. If private banks and companies could not provide affordable housing to people with low incomes, then the government would do it. The Federal Housing Administration (FHA) and other related agencies would help to finance the purchasing of homes, so that everyone could participate in the "American Dream."