

Coolidge Prosperity and the Great Depression

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Abstract. The Great Depression of the United States from 1929 to 1933 was the longest, deepest and most extensive depression in the 20th century. This economic crisis affected the entire capitalist world. At first, it gave a false impression of American prosperity. The average industrial production index for the United States was only 67 in 1921; however, it increased to 110 in July 1928 and 126 in June 1929. At that time, economists, government leaders and people all believed in their bright future. The American financial sector, however, collapsed on October 24, 1929, and the stock fell from its peak to its depths overnight. The price dropped too quickly to keep up with the stock market's automatic display, shattering the aspirations of countless Americans to lead happy lives. The fundamental conflict in the capitalist system—between the socialization of production and private ownership of capitalist means of production—is what led to the Great Depression. Along with causing widespread, long-term unemployment, it also changed social norms, toppled the established order, aided the rise of the Nazis and the Fascists, and ultimately sparked the start of the Second World War. The purpose of this paper is to remind people of the history of the Great Depression and help avoid the risks that China may face in the process of economic development.

Keywords: The Great Depression; Coolidge Prosperity; New Deal.

1. Introduction

World War I was a disaster in the world, but it offer America with opportunities for economic development. During World War I, America took advantage of its "neutral" position to act as an arsenal for the allies of Germany, Austria Hungary and Italy and their component: allies of Russia, France and Britain. By meeting the large demand for weapons and military materials during the war between the two sides, America made a great profit by the sold of a large number of weapons. America expanded military production and heavy industry production. As the war continued, the war-torn countries found that they did not have enough money to buy weapons. So America provided war loans to Britain, France and other countries, so after World War I, both Britain and France owed the United States more than 10 billion dollars in war loans to be repaid. At the same time, taking advantage of the opportunity of weakening the competitiveness of the European world market, they expanded the scale of agriculture, dumped a large number of agricultural products to them, and exported commodities.

Before the war, America was still an importer of capital; now, it exports capital and has switched from being a debtor to a creditor nation. By 1924, America was in control of the international financial system, had used half of the world's gold reserves, and had relocated the financial hub of the post-war capitalist world from London to New York [1]. With the accumulation of abundant capital and World War I technology, the United States began to strive to update equipment and vigorously promote the "rationalization movement of industrial production". The most representative are the "Taylor system" and "Ford system". Technological innovation and production efficiency have also been greatly improved.

Other European nations are still recovering from the war, but the United States has taken control of a sizable number of international markets. America used "gold dollar" diplomacy, "big stick" policy, and the cover-up slogan "America is the Americas of the Americas" to exclude the capital of European countries, trying to make Canada and Latin America the main investment sites for the United States to monopolize capital. After World War I, America modified Britain's original dominant position in Canada with the penetration of economic forces [2]. In relation to the developed capitalist countries of Europe, the United States used dollars everywhere and engaged in "gold dollar

diplomacy" in the name of assisting in the recovery of the damage caused by war. As a result, America's foreign trade and capital output continue to expand.

At the same time, the capitalists also introduced advanced consumption of goods for the farmers with insufficient consumption power, and they can buy large living items on credit. Let refrigerators, radios and other advanced electrical appliances enter the lives of millions of households in the United States. The construction, automobile, and electrical industries are also referred to as the American economy's "three pillars." Among them, the construction industry's output value increased from \$12 billion in 1919 to nearly \$17.5 billion in 1928, and the auto sector became the biggest industrial sector in the United States [3]. At the same time, it supported the development of the steel, petroleum, chemical, and other industries. The electrical industry also experienced rapid growth in the 1920s, contributing to the American economy's prosperity at this time. This period is also known as the "Roaring Twenties", and the President of the United States at that time was Coolidge, so it was also known as "Coolidge Prosperity". The economic development of the US in the 1920s also led to the prosperity of the stock market. Americans were lamenting that "our life is getting better and better." However, this prosperity directly led to the 1929-1933 world economic depression.

2. Cause

The direct reason for the outbreak of the American financial crisis in 1929 was that the transformation of the mode of production led to the increase of productivity, and the strong consumer demand after the war led to the rapid expansion of credit consumption. The positive response of the market made the stock market fall into the false prosperity of unlimited expansion. However, after the boom, the gap between the rich and the poor was widening due to excessive overdraft of credit. When the foam blown by the boom broke, only the chain reaction after the collapse of the economic order was ushered in.

On June 17, 1930, facing the tragedy of the United States, Hoover decided to significantly increase tariffs and form tariff barriers to protect his own interests. In spite of the joint opposition of domestic economists, the "Smoot-Hawley Tariff Act" was signed, which increased the average tariff of more than 25,000 products by 59%. And other countries naturally did not dare to lag behind, so international trade decreased by 65 percent, which also laid the foundation for World War II [4].

In addition to tariffs, Hoover listened to the advice of the Secretary of the Treasury, Andrew Mellon, in 1932 and raised taxes by a large margin. The tax rate on the highest earners was raised from 25 per cent to 63 per cent [5]. This means that during the Great Depression, it was more difficult for enterprises to obtain private investment. At the same time, Hoover believed that raising wages could help the United States get rid of the economic depression and enable workers to regain purchasing power. However, wages are also one of the production costs of enterprises. If wages are not cut in the case of poor profits, then only jobs can be cut, which instead aggravates unemployment. In 1931 alone, the unemployment rate soared to 15.9 percent, and more than 10 million people were unemployed. Facing the huge unemployed population, Hoover refused to sign the "Federal Emergency Relief Act" proposed by Congress in 1931 and vigorously advocated voluntary contributions [6]. Because of the large number of unemployed people, people have no choice but to rob directly in the streets, which has led to a sharp decline in the security situation in the United States.

3. Impact

The Finance Minister Andrew William Mellon also assured the public in September 1929: "Now, there is no reason to worry, and this boom will continue." Who would have thought that on October 24, 1929, the United States ushered in its "Black Thursday" (the sudden collapse of the Wall Street stock market in the United States) [7]. The American financial sector collapsed on that day, ushering in "Black Thursday," the sudden collapse of the Wall Street stock market. On October 29, 1929, the entire New York Stock Exchange went into a selling frenzy. The stock index fell by an average of

40% from its previous 363-year high, and thousands of Americans saw their life savings vanish in a matter of days [8]. Since then, the United States and the rest of the world have been in a decade-long economic slump. As a result, this day is remembered as a watershed moment in the Great Depression. It is known as "Black Tuesday" because it falls on a Tuesday. From October 29 to November 13, 1929, a total of \$30 billion in wealth vanished in just two weeks. However, the collapse of the US stock market is merely a crater in the midst of a disastrous economic crisis.

The truly awful chain reaction quickly occurred, resulting in irrational stock market movements, banking crises, factory closures, layoffs of workers, the onset of poverty, structured resistance, and the threat of civil war. The Mississippi River was turned into a "Milky Way" by agricultural capitalists and big farmers who destroyed a lot of "surplus" goods, burned wheat and corn rather than coal, and poured milk into the river. The city's homeless population constructed basic shelters from wood planks, rusted iron sheets, tarpaulins, and even Kraft paper. The "Hoover Villages" are the settlements where these huts congregate. Hoover bags are the term used to describe the tramps' bags. "Hoover cars" are vehicles that are pulled by animals since the owners cannot afford fuel. Even the newspapers that tramps use as blankets while sleeping on park benches are referred to as "Hoover blankets" [9]. During the Great Depression, the street apple vendors rose to become one of the most recognizable figures.

The stock market crash triggered the Great Depression, which lasted four years. The economic crisis quickly spread from the United States to the remainder of the industrialized world. For millions of individuals, eating, wearing, and living is a struggle. Countries strengthened trade protection measures in order to protect their own interests, further aggravating and worsening the global economic situation, which was a major cause of the outbreak of World War II.

Serious social issues were also brought on by the Great Depression. For example, between 2 and 4 million high school students quit school during that time; many people committed suicide because they couldn't handle the emotional and physical suffering; and Social Security is getting worse by the day. The main problem is unemployment. There are currently 8.3 million unemployed people in the United States. The line of needy people waiting in American cities for relief food can stretch for several blocks. Between 5 and 7 million people in Britain lost their jobs, forcing them to stand in a longer line for employment. The Great Depression brought about a catastrophe that has never before been seen in human history. It is even worse than the "three-year famine" that occurred in China between 1959 and 1961 during the country's three difficult years. Between 1930 and 1933, there was a serious economic crisis known as the American Great Depression, which caused famine and malnutrition throughout the country and a significant number of unusual deaths. According to the most conservative estimate, at least 7 million people perished, or roughly 7% of the population of the United States at the time. During the 1930s Great Depression, millions of people were forced to live like animals. According to a Fortune magazine estimate from September 1932, 34 million men, women, and children—nearly 28% of the country's population—do not have a job in the United States. And this research report, like other reports, excludes the 11 million rural people who are suffering in another kind of hell.

People who had experienced the Great Depression had developed different opinions. In the 1920s, workers broke out of their numbness and went on a violent strike. Due to the Soviet Union's economic success, liberals turned Marxist. Fearing Bolshevism, the conservatives increasingly embraced fascism. Germany and Japan started down the path of fascism and the path of foreign invasion and expansion in an effort to escape the Great Depression.

4. Response of Government

Numerous Americans' illusions were destroyed by the abrupt decline in the stock market. The failure of businesses destroyed their life's worth of savings. Even after losing their savings, people were unable to obtain even the most basic form of security. As a result, everyone eagerly awaited the government to save the market during the Great Depression; However, the US government is unable

to preserve itself at this stage. How can it save the economic market? Hoover, who was then the President of the United States, stepped down with a heavy heart. After Roosevelt, the newly elected Democrat, came to power, he did not give the people too much hope at the beginning. Roosevelt started to implement "the New Deal" though, after he had a deeper understanding of the Great Depression. The American people and government were able to end the Great Depression as a result of this "New Deal."

The term "New Deal" describes a set of economic measures that President Roosevelt put in place after taking office in 1933. The three Rs form its basis: Comfort, Restoration, and Reform [10]. Relief is primarily for the poor and jobless, Recovery is to bring the economy back to normal, and Financial System Reform is meant to stop a repeat of the Great Depression.

Before starting up to implement the New Deal, Roosevelt must save enough funds for the implementation. In order to save money and alleviate the government's financial crisis, Roosevelt cut the unnecessary spending budget of the government and society. Roosevelt as a result decreased the pay of government employees, eliminated some unnecessary government agencies, and even shut down some state-owned businesses that were under government control: Because of the need for a large amount of capital budget, which was far from enough, Roosevelt also cut off the unnecessary budget of the United States military, shut down some R&D projects, and cut the size of the military, so as to make up the capital budget.

4.1 New Deal I: Focus on Adjusting the Industrial Model

First and foremost, the contradictions inherent in the capitalist model and, more specifically, a series of inconsistencies in industrial production and sales, were the primary causes of the Great Depression. Due to the seller's substantial wealth from substantial industrial production, industrial businesses experience low profits, which has an impact on the wages of a significant number of workers. Second, the financial sector's investment volume in the US has also surpassed the original market's capacity. The citizens spend a lot of money on investment and continue to invest blindly, so that they can become rich again in the future. However, the sharp drop of the stock market index also caused heavy losses to many people. Instead of following the common sense like to stop investments, people used their cars and houses as collateral, borrowed money from banks, and then quickly returned them to the stock market. This meaningless cycle has led to a more serious gap between the rich and the poor in the American society.

So Roosevelt put forward three suggestions for the industrial crisis at that time: first, follow the communist economy by imitating the Soviet Union. The United States can quickly recover from the Great Depression with the aid of this type of economic system if it follows two other ideologies: first, German Nazi fascism, that can export domestic depression and even accomplish the effect of stealing other people's capital. The only new economic system which can maintain the American aesthetic is "pragmatism," which is the third model. However, it takes a lot of planning and preparation to advocate for pragmatism. The third option—pragmatism—was finally adopted by the US Congress after much debate.

Thus, Roosevelt supported some failed banks again, and injected capital into the banking industry. They were responsible for the blood transfusion of American enterprises today. Some industrial businesses started to recover thanks to the banking sector's blood transfusion, and they also helped to shape related industries. As a result, the US government's first attempt to modify industrial reform went off without a hitch.

4.2 New Deal II: Strengthen the Government's Control and Regulation of the Market, and Abandon the Gold Standard System

The second step after Roosevelt resolved the industrial issue was to increase U.S. government market control and regulation authority. The American government has historically supported a free economy. In general, the market determines and resolves issues in the economy, and the government rarely steps in.

This model can in fact help the market prosper to a certain extent. However, a market without fundamental constraints also has a lot of issues and drawbacks, including fake goods, the financial recession, and market proprietors who lose their resolve. Roosevelt came to the conclusion that the US must adhere to the democratic and free market system, but on this foundation, it is also necessary for the United States to have some control. This implies that the US must still enter the market, and that it is ultimately responsible for managing and overseeing it.

If in the past, the American market owners absolutely resisted the government's intervention, but now the market owners are helpless, and they can't wait for the American government to intervene to rescue the market. As a result, Roosevelt's second New Deal initiative was also successfully finished. The government quickly brought order to the chaotic market environment after it intervened, stabilizing some bewildered market proprietors.

The US government started outlawing gold exports completely. The United States held and over half of the world's gold reserves when the gold outflow was stopped, and Roosevelt issued a significant number of extra currencies to encourage the undervaluation of the U.S. dollar [11]. Through the devaluation of the U.S. dollar, he improved the export capacity of domestic goods. Numerous businesses quickly grew more active during a time of increased U.S. dollar issuance. By getting the benefit of the interim transition phase of the significant devaluation brought on by the additional issuing of the U.S. dollar, they seized the chance to conduct a significant amount of international trade. As a result, a sizable amount of foreign currency entered the country, allowing the American market to catch its breath.

4.3 New Deal III: Agricultural Production Reform

The population of farmers drastically decreased during the Great Depression, which was not a good thing. The Roosevelt administration encouraged "work for relief" and encouraged a large number of Americans from the cities to move to the countryside for development. They also provided them with various economic subsidies. In the United States, disaster relief funds are no longer given directly to the populace; instead, the populace works to earn the funds. This not only helps to develop people's consciousness but also helps to maintain market stability.

America started incorporating technology and science into agricultural production around the same time. However, Roosevelt was not extremely fearful of agricultural production at this time since the Great Depression had caused a significant decline in American agriculture, despite the dire state of the country's agriculture. Roosevelt faced little opposition when he advocated for a policy that would use science and technology to boost agricultural output; it only took him two years to get American agriculture back to where it was prior to the Great Depression.

5. Conclusion

Take history as a mirror to know the rise and fall. No matter such a Great Depression or various smaller economic recessions that have occurred in the world, they have become the past. There has never been such a dangerous economic depression in China's history, but this does not mean that it will not happen in the future. What need to do is to be vigilant, be prepared for danger in times of peace and take precautions. On October 19, 1981, when the world stock market fell sharply, the Federal Reserve quickly made corresponding countermeasures, clearly announced that it would provide loans as needed, immediately conduct open market business, and reduce interest rates, thus effectively preventing the decline of production, and the Great Depression did not happen again. It is also of great significance to summarize the results caused by the policy omissions of the United States in the Great Depression, especially for the formulation of China's fiscal and monetary policies. In recent years, China has adopted positive fiscal policies such as lowering interest rates, reducing reserve ratio, and issuing more national debt to stimulate domestic demand, which has produced positive effects. The Great Depression has given us a profound truth: any expansion of consumer demand beyond the economic capacity of society and individuals must contain crisis factors, because

such consumer demand cannot be sustained for a long time, and the greater investment formed under its stimulus will become a crisis factor.

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