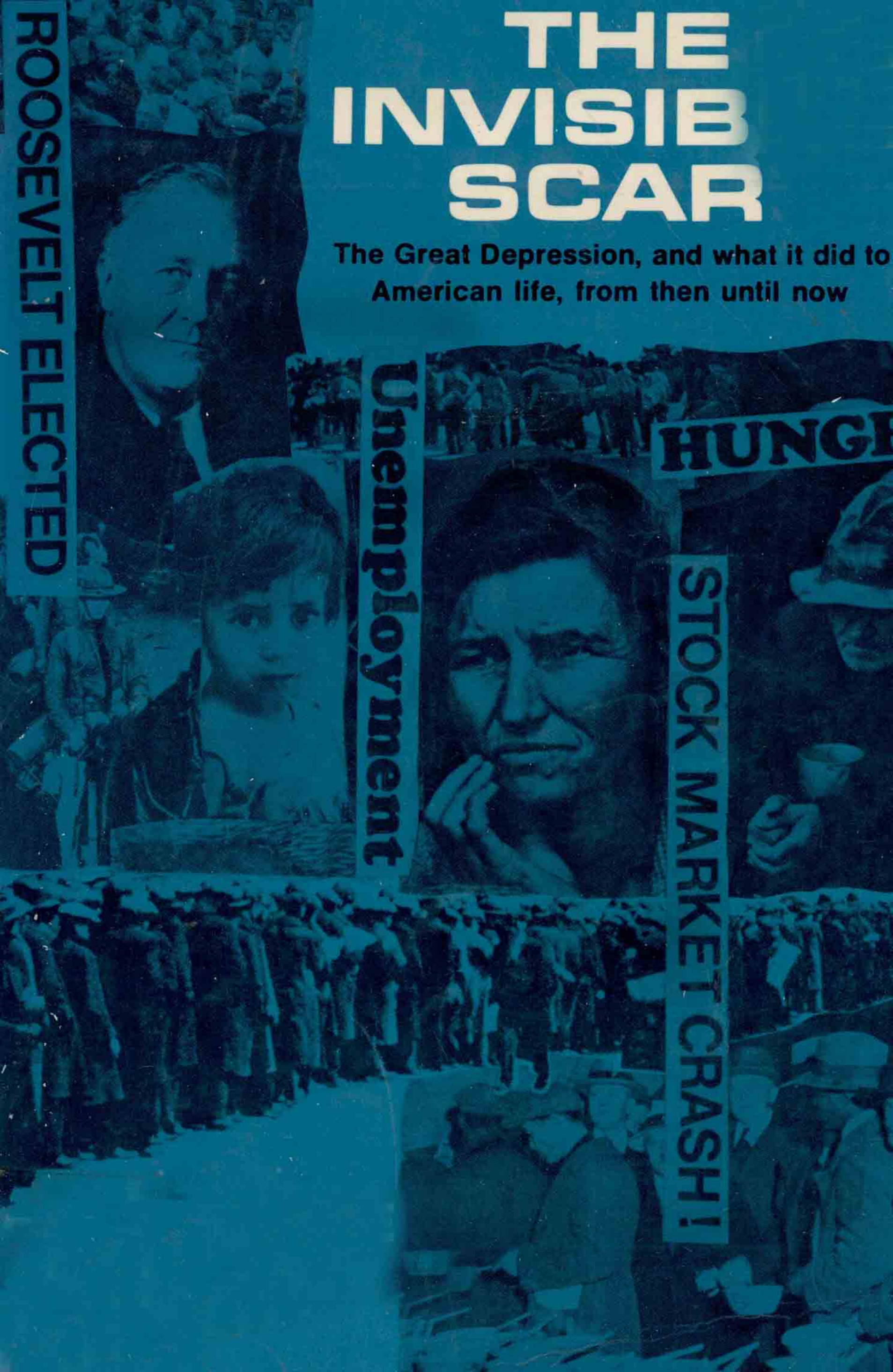
THE INVISIB SCAR

The Great Depression, and what it did to American life, from then until now



The Invisible Scar

by CAROLINE

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THE INVISIBLE SCAR

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THIS is not a dispassionate book. I believe there is a difference between human rights and property rights, and when the two conflict, I'm for the human rights. Since I am a journalist, not a scholar, I write by the canons of journalism: I state my bias, evaluate my sources, listen to both sides, get facts as straight as possible, and seek help from experts, many of whom are scholars, historians, economists, and sociologists whose insights are their stock in trade. They have been unfailingly generous. But the opinions and conclusions are my own.

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I am appalled at how fast the firsthand sources on the Thirties are dwindling. Jules I. Bogen, Charles Bonner, Walter Dolgin, James M. Landis, Herbert Lehman, Eleanor Roosevelt, and Pascal Whelpton gave me information while I was writing the book. Now all of them are dead.

CAROLINE BIRD

INTRODUCTION: THE LONG SHADOW OF THE DEPRESSION

WHEN I was growing up, I often heard people talking about "the good old days, before the war," meaning, of course, the supposedly golden era before the 1914 war. The phrase has no currency or meaning any longer. Nobody talks, glowingly or otherwise, about "the good old days" before World War II. And yet that war marked a sharper dividing line in the American mode of living, the economy, the culture, the thought, the politics, than did the first World War.

It is a curious fact that the Great Depression is in danger of disappearing altogether from the collective consciousness. Already it seems unreal, even to those who lived through it. Did those things really happen? We pinch ourselves. Wasn't it just a bad dream?

In spite of this tendency, the Great Depression was real, it was awful, and more to the point, it packed a bigger wallop than anything else that happened to America between the Civil War and the Atom Bomb. It had more far-reaching consequences, I happen to think, than either of the World Wars. Nobody escaped. Every individual in every walk of life was hit.

What is overlooked and frequently forgotten is this: when the stock market crashed in October 1929, America stopped growing and did not really get moving again until the attack on Pearl Harbor in December 1941 mobilized our resources. During those long intervening years of standstill everybody and everything marked time. There were years when we wore out our roads and factories and houses faster than we replaced them. We had so few babies and crippled so many promising careers that we are now desperately short of teachers and executives for the educational and industrial expansion to which our affluent society is now committed.

Americans were bewildered. From the beginning, this country had grown bigger and richer almost every year. Standstill challenged our Conventional Wisdom of progress, individual initiative, thrift, free enterprise, limited government—even our Conventional Wisdom of love and marriage. It was so puzzling that when the war rescued us from our dilemma we gratefully brushed the whole ideological mess under the rug and left it there.

Occasionally, today, some hard-bitten old hand on Wall Street warns that stocks can go down as well as up. Sometimes a veteran sales manager declares that no one under thirty really knows how to get out and sell, or an employer laments the passing of "an honest day's work for an honest day's pay." The young usually listen in pity and in boredom.

But while the Depression fades in memory, it continues to define economic problems for the business and government policymakers who succeeded under Depression conditions. One of the most powerful men in the United States is William McChesney Martin, Jr., Chairman of the Federal Reserve Board since Truman's Presidency, who started working as a stockbroker in 1929 and at 29 succeeded Richard Whitney as Governor of the New York Stock Exchange with a mandate to reform it. In May 1965, Martin broke the public silence to warn of "disturbing parallels" with the boom of the 1920s that ended in the Crash. He pointed out that now, as then, American dollars were powering a European boom that could be dented by the abrupt withdrawal of our credit (and this time American business was dependent on overseas markets for a larger proportion of its profits). Responsible leaders all over the country reassured investors with a recital of all the reasons why we cannot, in 1965, have the same kind of Crash that we had in 1929.

We have Federal deposit insurance and sounder banks. We have floors under consumption—Social Security, unemployment insurance, private pensions, more workers in salaried and non-profit jobs that hold up in hard times. We have a progressive tax system that takes away income from the rich, who might hoard it, and taxes business only when business is making a profit. Professional managers in big corporations have learned to manage inventory, to plan further ahead, and to measure the market and respond to it faster. We have economic tools and computers to report the whole economy faster and more accurately. The Government has finally learned to plan taxes and spending on the basis of the cash it pumps in or takes out of circulation.

The Depression could not, everyone agreed, happen again. Yet even as the experts were explaining why, individual traders were getting out of the stock market, and it began to drop. Economic forecasters lowered their sights for 1966 and almost all predicted a slowing of growth and more unemployment. The most sophisticated economists were uneasy. Our safeguards were, after all, safeguards against 1929-style Crash. Our statistical measures were based on a smaller and simpler economy, and we might understand as little about the present economy as the speculators of 1929 understood about theirs.

These forebodings did not get far. They were cut short by the war in Vietnam and the recognition that it would take more men and money than previously admitted. In September 1965, the escalation of the war appeared to be exactly big enough to take up the slack that was forecast for the first quarter of 1966.

There is, of course, nothing new about generational lag. The world has always been run by men in their late fifties as if it were—or at least ought to be—the world of their early twenties. But unlike other ruling generations, the leaders of 1965 are not talking up the world of their youth, but doing their best to forget it. The penalty for this amnesia is not the loss of those copybook lessons in economic virtue that the Depression supposedly taught us. It is not even the prospect that we may have to repeat those portions of our history which we have forgotten. The penalty is worse. The victim of a selective memory loses touch with himself.

The college rebels of the 1960s who have grown up in an affluent society see a gap between public policy and reality. They accuse the Depression-bred authorities of asking the wrong questions. They are marching for peace against older people who unconsciously perpetuate the cold war because defense programs make jobs. They find their elders cynical and hypocritical. The placard-carriers on the campuses confront the presidents of the multiversities and wonder "how guys like that ever made the scene so big." It is a fair question.

The stony standstill of the 1930s favored the careers of young men with tough hides or private incomes, just as a long dry summer favors weeds and hothouse plants. In the 1960s, it is those who best endured adversity, the survivors, who have advanced to the front offices of the nation, including the White House, where they preside—with crossed fingers—over the longest and steepest economic expansion of record. What are our leaders doing that would have been done differently by the gentler, and perhaps more imaginative, souls screened out of the running in the bad old days? The very question arises only because the Depression shook our faith in the automatic elevation and superiority of the fittest.

A full answer would be long. It would have to map all the far-flung ways in which economic standstill frustrates, limits, and demeans. The total human bill for the Great Depression has never been added up, but it would contain thousands of sizable items. For a few weeks I picked up nonfiction books at random from library shelves and flipped to the indexes. The words "Depression" or "Great Depression" appeared in accounts of everything from the insurance business to the ballet.

The Depression expanded the role of government, and of Federal government at the expense of the states. It stimulated business to social conscience and professionalized corporate management. It changed the balance of power in family life in favor of women while discouraging marriage and motherhood. It held back and isolated Negroes, Jews, and women by making it easy to discriminate against them in employment, and it converted the public school from stepping-stone to refuge for the unemployed. It turned intellectuals to the left, slowed the application of technology, kept most of the nation ill housed, and prevented the natural spread of population to suburbs. It influenced fashions in women's clothing, amusements, architecture, lovemaking, and child rearing.

It drew fellow-sufferers together for good (there was time for conversation and camaraderie) and for evil (couples stayed together because they couldn't afford divorce). It slowed our induction into the contemporary world and shoved us into it with reservations; every worry expressed about automation is a retread of Depression discussions of technological unemployment. It spread abroad, gaining us enemies, and it cut us off from Europe until the war engulfed us, first as a shock and then as a bonanza. Our guilt over preferring war to Depression is one of the reasons we hate to think about the bad old days before the war.

The self-perpetuating poor who dismay us now are the children of the people the New Deal left out, and the remedies President Johnson suggests are lifted whole cloth from President Roosevelt. The principal difference is in numbers: in those days, one out of every four employable people was unemployed, instead of one out of twenty; Roosevelt saw one third of America poor, instead of one fifth.

If you went by contemporary references to the Depression, you might get the idea that the Depression was a faceless menace. In truth, it was as explicit as a statistic, as tangible as a wound. Above all, it was a series of real events in actual time.

It began with a financial crash, reached nadir in paralysis, and ended with unexpected death from the skies. The beginning, the rock bottom, and the end were three days so vivid that most adults can remember what they were doing on those days:

• On Black Thursday, October 24, 1929, the bottom dropped out of the stock market, pulling everything else down after it.

• On March 6, 1933, the Bank Holiday that Roosevelt declared as his first Presidential act, economic activity of every kind stopped dead.

• On December 8, 1941, the day after Pearl Harbor, we declared a war that put every employable man and woman to devil's work.

• Those twelve years in between were filled with lower-case tragedies: mean stratagems, unspeakably petty economies, lost time, lost hope, lost opportunities, monotony, envy, and bitterness. Regarded from the other side of World War II, they added up to a major tragedy rousing pity and fear. These emotions were dissolved by the threat of instant, universal destruction of the human race.

Sophocles could have written the script.

CONTENTS

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CRASH

1929. That number always means a year, and that year means the crash of prices on the New York Stock Exchange in the last week of October. Like 1492, 1776, and 1914, the bare number 1929 has passed into the language as the term for a vivid event and the big changes it brought.

The big change of 1929 was the end of the rich.

I was fourteen years old at the time, and I can remember everyone in our car laughing when my father pointed to an Italian Renaissance-style mansion on the Grand Concourse of the Bronx. "See, Caroline? That's the poorhouse for millionaires!"

I told him I didn't believe there was such a thing. "Yes, it's true," he said. "It's a charity for the rich so they won't have to go to a public institution and live like other people if they lose their money." This was the Andrew Freedman Home.

During the next few years so many people in comfortable circumstances "lost everything" that Mr. Freedman's concern for the impoverished rich seemed neither improper nor untimely. Every time we passed his mansion—and since we lived in Westchester, that meant every time we drove in to New York—I half expected any number of people I knew to peep out of the stately windows.

In 1965, I finally got around to checking up on my father. He was absolutely correct. According to its charter, the Andrew Freedman Home was founded to maintain, in the style to which they had been accustomed, "people in good circumstances who through no fault of their own had lost their money." It was set up not in 1929, as I had imagined, but under a will dated 1907, the year of the biggest stock-market panic before 1929. Freedman was a poor boy who made a fortune in real estate. Experience in several walks of life had convinced him that reduced circumstances were harder on the rich than on the poor.

The rich did not actually become poor in 1929. The great American fortunes held together very nicely, and much of the money the new-rich lost was on paper. Only one or two of the rich became apple sellers. But after 1929 the rich no longer glittered as they walked. Never again were they to have it so good.

It took surprisingly little money to be rich in 1929—less than $6,000 a year if you define being rich as enjoying a family income greater than that of 95 percent of the population. Nor did the rich of 1929 have more things than the rich have now. In those days $6,000 bought only $10,000 worth of goods and services at 1963 prices, and there were no automatic washing machines, dishwashers, television sets, air conditioners, home movie cameras, home freezers, Fiberglas fishing rods, or hi-fi phonographs for anyone.

Instead of things, the rich had the priceless luxury of a commanding share of the wealth, the income, and even the regard of the American people. No one who has grown up since the Crash can know how it felt to be rich before 1929. In 1929, the last year of their glory, the rich got more of everything that could be bought for money than the rich of 1960 could. They gobbled up nearly a third of all the goods and services the

United States consumed. In 1960 their share was less than a fifth.

In 1929 the rich did not have to work for a living. Interest rates were high, and income taxes negligible. A nest egg of little more than $115,000 could assure you of a safe, coupon-clipping (and tax-free) income of $5,000 a year, the target of aspiring young men. You could live like a king on $5,000 a year in France, where the cost of living was even lower than in the United States and dollars commanded a premium in demoralized francs. In 1960, only one rich family out of every hundred lived entirely on unearned income. All the other 99 had someone out working for a living, and one out of four made the top-five-percent bracket only because the wife was working as well as the husband.

In 1929, more of the rich were very, very rich. A record 513 individuals admitted to an income of a million dollars or over, a larger number than in the 1960s, when there were more than half again as many people in the country. The contrast is significant even if it is more apparent than real. In 1929 a man could boast about his income without worrying about what the Internal Revenue might think.

In 1929 the rich were really rich. It is hard now to realize how much more a 20-dollar bill meant to some people than to others. Downtown in the Manhattan piece-rate sweatshops a girl might sew two weeks of long days for it. Uptown, at F. Scott Fitzgerald's Plaza, one of the very, very rich might hand a twenty to the headwaiter of the Oak Room, if he did not happen to have a smaller bill on him. It was real money, his very own, one hundred cents to the dollar, and no mean calculation of tax deductibility spoiled the fun of spending it.

Before October 1929, a million stock-market speculators were glad that the rich were rich, because they expected to be rich soon themselves. Millionaires were being made every day.

It was as if a fairy godmother had decreed a coach for every Cinderella.

The Crash turned them back to pumpkins as fast as the stroke of twelve in the fairy story.

It was like a conjuring trick. The morning of Tuesday, October 29, 1929, stocks on the New York Stock Exchange had a real value. By 5:30 that night, when the ticker finally caught up with the 3 o'clock closing transactions, that value was $14 billion less. Two weeks later, $26 billion in stock values—40 percent of the value of all stocks listed on the New York Stock Exchange—had evaporated into thin air. And that was just the beginning. By July 1, 1932, another $47 billion had vanished.

The break started on Thursday, October 24. Three billion dollars went down the drain that day, but the really big speculators were not badly hurt. A little after noon, Richard Whitney, the Groton-and-Harvard acting head of the New York Stock Exchange, cleared the gallery of curious spectators, including Winston Churchill, who was visiting from England. Deliberate, dignified, a "Morgan broker" of the old school, Richard Whitney made his way to Post 2 on the Stock Exchange floor. Acting for a pool subscribed by bankers Thomas W. Lamont of Morgan, Charles E. Mitchell of the National City Bank, William C. Potter of Guaranty Trust, Albert H. Wiggin of the Chase National Bank, and Seward Prosser of Bankers Trust, he dramatically offered $205 a share for 25,000 shares of U.S. Steel, 15 points above the boiling market. The market revived. The pool did not have to spend much of the $240 million they were supposed to have pledged to support prices, and what they did buy they quietly sold, during brief rises, at a small profit.

Most of the losers, that first Thursday, were small investors. In boardrooms all over the country they stood shoulder to shoulder for hours watching the ticker flash spot quotations, each one lower than the last. There was no talk, but once in a