Episode 33:
All Good Things Must Come to an End

And welcome to the 33rd Episode of the VERY UNofficial AICP Study Guide Podcast. I'm Jonathan Miller, and thank you so much for joining.

So, it's a good thing we're breaking into the Great Depression - which is probably a statement no one has ever said actually - but anyways. It's a good thing because there's a lot of content there, it limits jumping around too much.

Why is this good? Because my way better half and I are going on our annual vacation to San Diego on the 28th. I don't know if I've mentioned, but we lived there for like a year, and there's a ton of places there that I just love and we like to soak it all back in at least once a year: Balboa, Coronado, my favorite place in the U.S. - the Cabrillo tide pools, and hiking in Cuyamaca.

We are also flying up to Portland to spend a couple days around Portland and Vancouver, so I'm really bring this up because if anyone has any suggestions on stuff we should really do while we're out - let me know.

Anyways, last week we talked about changing of the guard for transportation to the almighty automobile, the first Federal-Aid Highway Act in 1916, the first modern parkway in 1919 with the Bronx River Parkway, and the first Regional Suburban Shopping Center oriented around cars, Country Club Plaza in Kansas City.

As we all know though, our reliance on automobiles can be somewhat depressing, but as not as depressing as October of 1929 when we hit a pretty damn low point with the start of the Great Depression. To kick it off, it makes sense to look at the question: What was the Great Depression anyways?

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The Great Depression - not your normal quarter- or mid-life crisis - was the biggest economic dip in history, and it didn't just affect the U.S. either. It was felt worldwide.

It lasted almost 10 years, and started in 1929 with the Market Crash of 1929 and within four years the U.S. GDP was cut by almost by a third; with industrial production cut in almost a half, and unemployment reaching 20%. That's one in five people.

For comparison, the Great Recession was the second largest, but the GDP was only cut by a little over 4% - and unemployment hit 10% - so, the Great Depression was like, way worse. So what caused it? We know the housing market collapse caused the Great Recession in the 2000's, but what caused the Great Depression?

The answer? No one knows. Just kidding, or not. No one apparently agrees on all of the factors and to what degree, but generally speaking four major factors contributed.

1) The stock market crash in 1929;
2) Bank runs and increased interest rates;
3) The Gold Standard (yes, so when all these people today are like, "uhhh, all this inflation is because we

use a fiat currency." Just politely remind them that "uhhh, the gold standard prevented the Fed from issuing credit and creating liquidity which subsequently exacerbated the great depression);" and

4) Decreased international lending (mostly because the increased interest rates was inhibitive to lending in general)

Basically, no one wanted to spend money because they didn't have any, and interest rates were sky-high because we had to maintain a gold standard and if we lent out more money we wouldn't have the gold to back it. So, buying on credit wasn't going to work, plus, since prices were consistently lowering, it made more sense to hold money if you had it. Because 10 bucks today could buy way more stuff tomorrow.

Because of the decreased lending and decreased buying, demand for international stuff wasn't going to happen either, so globally we all got rocked too.

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It seems though, that the Market Crash of 1929, AKA the Great Crash, really kicked off the decline. So, what exactly happened there?
Well, in a tale that's like, extremely reminiscent of the Great Recession and the market today, here's what happened; and this is taken from history.com, so I'm not exaggerating or making anything up.

You've heard of the Roaring 20's? There's like theme parties and crap that revolve around it. Because, you know, the 20's were such a care free time. Well, it was care free for a reason. Because no one cared about repercussions. The stock market rapidly shot up based on a lot of speculation, and then in August of 1929, the shit started to catch up. Construction was slowing down, industrial production slowed, sales were declining. Probably because people in general had started to amass a lot of debt based on easy credit and carefree speculative spending.

A couple economists at the time saw the writing on the wall and they tried warning people ... and after some spurts of selling and decline, banks started issuing large buy orders to bring back market confidence, but it just wasn't enough.

On Thursday, October 24th, Black Thursday, 12 million shares were traded and the whole market dropped 11%. Friday was a little more modest with a 6% drop, and then on Monday, October 28th, Black Monday, it dropped another almost 13%. And then, on Tuesday, October 29th, you guessed it, Black Tuesday, it dropped again with the largest sell off at 16 million shares.

By Wednesday, just Wednesday, the market was down another 12%, and there were even some shares that people tried selling and couldn't because literally no one would buy them. From there it was game over. The decline continued for years until July 1932 when it hit its lowest point, and in mid-1933 it finally began to recoup.

(07:09)

The financial markets weren't the only thing booming in the 20's though. Agriculture was too: lots of rainfall, easy winters. In 1930 though, that went kaputsky.

1930 was exceptionally dry, and continued to be for basically the rest of the 30's. You probably know it as, "The Dust Bowl Era."

Basically, the dry conditions wouldn't allow anything to grow, but the fields were already plowed. So instead, we just got a bunch of dry dirt and topsoil that ended up blowing around in high winds like a sandstorm in the desert. We had a bunch of dust storms in the Great Plains.

Anyways, we have the influx of rural residents to cities during the prosperous Roaring 20's, combined with the beginning of the decline in agriculture during the dry conditions in early 1930, or the beginning of the Dirty 30's. Don't look at me, that's just what it was called.

These events combined to create the motivation for the Secretary of Agriculture to put together a National Conference on Land Utilization in 1931.

Together, with the Association of Land Grant Colleges and Universities, the Chamber of Commerce of the U.S., and some others, they came up with a plan: a list of 18 recommendations to reestablish agriculture. These included:

- Administration of the public domain, i.e. all of those grazing lands owned by the federal government out west;
- Protection of watersheds and school lands;
- Agricultural credits;
- Expanding the Department of Agriculture to build on forecasting;
- The inventory of land resources and classifications of soils;
- Better management of Homestead Acts and moving marginal lands to the federal government
- States imposing an income tax;
- Regulate land development;
- Studying the suitability of lands for specific agricultural uses;
- Stop the process of reclamation, i.e. stop creating new irrigation projects;
- Try to improve marginal lands or remove obstacles to making these marginal lands profitable;
- Federal acquisition of certain lands;
- Soil conservation;
- The classification of lands;
- Decentralization of industries;
- Hold regular conferences on land utilization; and
- Create national committees on land use.

Back to the main issue though: the utterly failing financial markets.

(10:03)

Remember, the market slide that started in October 1929 continued into 1932.

The National Conference on Land Utilization met in Chicago in 1931 to talk about the effects of the depression and the droughts on agriculture and possible solutions there, but what about like literally everything else?

The commercial segments were crumbling and if you remember from the earlier part on the depression, there was a severe lack of financial liquidity; meaning there was no money to lend because of high interest rates, bank runs, and having to tie money to a gold standard. I mean, banks were failing out and closing doors all over the place.

So the federal government stepped in, but you need to understand the structure a bit before we go there.

So, the Federal Reserve, otherwise succinctly known as “The Fed.” We’ve talked a lot about the depression, and have yet to really talk about the Federal Reserve. That’s because they didn’t do much of anything. In fact, intentionally so.

There was a train of thought at the time that the best fiscal policy was to lower interest rates during growth, and increase them during market contractions, and extremists of this belief system thought centralized banks, AKA the Fed, should allow banks to fail so that the system could grow back healthier. So, that’s what they did. To their credit, they acknowledged their mistakes later on.

Anyways, the Fed was also limited in that it could only really supply loans to banks that were members of the Federal Reserve System, and not every bank was. Hell, not every bank is now. But Hoover, President at the time, and Congress noticed that the Fed was sucking terribly and passed the Reconstruction Finance Act in 1932.

This act ultimately created a new institution - The Reconstruction Finance Corporation, or RFC - that could lend money to banks and other institutions that provided money to industrial, railroad, and agricultural uses because the FED - at the time - wasn't actually allowed to. And that's why the RFC is known as the, "discount lending arm of the Federal Reserve."

(12:34)

But what about homeowners, or renters trying to get out of the renting game. There's no liquidity for them either. In January of 1932, relief came to financial institutions, and farms, and industry, but no love for the people and housing.

And then in July, the federal government finally came through when Hoover signed the Federal Home Loan Bank Act.

This Act was designed to provide liquid funds to banks to lend out for mortgages to stimulate the housing market. I mean, this was the depression right? The banks had no money from the bank runs in 1929 and everyone who lost a job - which was 20%, remember - they were defaulting on home loans. So, what to do? How did this act help?

Well, it created 12 Federal Home Loan Banks, or FHLBs, and gave those banks 125 million dollars to distribute to basically any financial institution who issued mortgage loans: savings banks, building and loans, co-ops, whatever. As long as these funds were going to mortgages to stimulate housing; that's what mattered.

And with the federal government finally stepping in, the road to recovery had started. They probably didn't know it then, maybe?

But July 1932 was the official rock bottom of the Great Depression because in 1933 FDR is elected and the New Deal gets underway.

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Well, sad and depressing. Like Greatly Depressing.

For a quick recap, send this episode to everyone who thinks the private market solves everything. Kidding. Sort of. I mean not really, but whatever.

We covered the beginnings of the Great Depression, especially the event that stakes its claim as the official unofficial start of the Great Depression: The Stock Market Crash in October of 1929.

Then we talked about another setback to the economy with the historic drought in 1930, and then pivoted to talk about a few actions the federal government undertook to try and get us out of this shit mess.

Like the National Conference on Land Utilization in 1931, and the 18 recommendations they came up with. Sounds mundane, but you'll see where those end up going in later episodes; like the Taylor Grazing Act, the Agricultural Adjustment Act, and the Soil Conservation Act. It really set the stage for a lot to come.

And then we talked about how the Federal Reserve dropped the ball, so the federal government had to initiate some sort of liquidity for people. So, they passed the Reconstruction Finance Act - which created a system of lending out funds to institutions that weren't eligible under the Fed, like agriculture, non-member banks, industry, etc. And then finally - at the end – at last relief came to some people in the form of the Federal Home Loan Bank Act which created a way to pump 125 million dollars in mortgage loans out to the people.

(15:58)

Well, thanks again for joining me. If you have any questions, feel free to reach out to me at theveryunofficialaicpguide@gmail.com and I'll do my best to help out if I can.

This week - it sounds like a lot - but this is really just the tip of the iceberg when it comes to this time period. The depression kicked off a whole era of federal government involvement which would impact planning for, well, ever. Including now.

And this is a good example of why I think this stuff is important. We need to know how and why the events led to what they did to know how to not repeat it, which we apparently suck at when you consider the recession in 2008 or look at what's going on in the housing market right now.

Anyways, for those who tuned in last week, our question was, "What event really kicked off the mass adoption of the automobile?" The answer there would be the moving assembly line developed by Ford. That innovation led to much cheaper cars - cars that were affordable to anyone - and everyone wanted one. I know that doesn't relate too much to the AICP, but it will help you remember that everything having to do with cars really happened after 1908.

If you want to play along this week, our question is, "What was the main reason for the Reconstruction Finance Act, and the Federal Home Loan Bank Act, and what year were they passed in?"

As always, don't forget to subscribe to this podcast on whatever platform you use for podcasts, and feel free to sign up on the show's website so you can follow along with future episodes, help prepare for the exam and supplement all of your other study regimens. And share this out with any planners you know, and don't forget to leave a review either. Don't forget to email me with any suggestions for San Diego, or Portland/Vancouver either.

Tune in again next week as we finally get to FDR and a slew of actions that followed to try and ease the depression. Thanks again everyone, 'till next time.

Links:

The Great Depression:
https://www.britannica.com/story/causes-of-the-great-depression
https://www.history.com/topics/great-depression/great-depression-history
https://en.wikipedia.org/wiki/Great_Depression

Wall Street Crash of 1929:
https://en.wikipedia.org/wiki/Wall_Street_Crash_of_1929
https://www.history.com/topics/great-depression/1929-stock-market-crash

Conference on Land Utilization (1931) & the Dust Bowl:
file:///C:/Users/jpmiller/Downloads/aer85.pdf
https://en.wikipedia.org/wiki/Dust_Bowl

Reconstruction Finance Corporation:
https://www.britannica.com/topic/Reconstruction-Finance-Corporation
https://en.wikipedia.org/wiki/Reconstruction_Finance_Corporation
https://www.federalreservehistory.org/essays/great-depression

Federal Home Loan Bank Act:
https://en.wikipedia.org/wiki/Federal_Home_Loan_Bank_Act
https://www.investopedia.com/terms/f/federal-home-loan-bank-act.asp