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## Depressions

S Joseph Millet

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DEPRESSIONS



A Thesis presented for the Bachelor of Arts  
Degree in Education

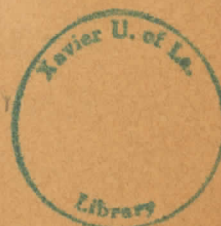
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## Depressions

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## Introduction

We are facing at the present time one of the greatest depressions known in the history of depressions. In order to relieve us of this terrible chaotic condition, the leading economists of the world are presenting many methods which they think will solve the problem. We are told many times in our newspapers and periodicals that things will come out all right in the long run. Well! Now, to understand precisely what this means, we would have to distinguish between society as a whole and the individuals who make up society. Considering society as a whole, it is very true that in the past we have had prosperity following depressions, and, it is often said that the prosperity following depressions has been greater than the prosperity that preceded depressions. We might say that after the present depression the world, as a whole, might be more prosperous than it has been, but we should not be too certain about this. It is safe to say that probably it will happen this time. Those who are so earnest and full of confidence in their prediction of a greater prosperity, simply and only rely upon repetition in the future of that which has happened in the past.

History in a way does not limit herself to repetition. "We live in an everchanging world and from time to time in human history the changes have become cataclysm upsetting all plans for the future based upon the idea of a steady forward movement. Past civilizations have perished in the course of social and economic evolution. In Rome, Cicero foresaw coming disasters, which he scarcely dared more than whisper; but his contemporaries were just as sure of the glorious future of Rome during all the coming centuries as we are to-day about the future of our own



country. And at the present time, do I need mention Russia, in which all complacent plans for the future, based upon the idea of repetition, have been completely upset? But even if society as a whole is going to be more prosperous in the future, it should be insured against the successive shocks of wars and world-wide Hard Times, if these calamities continue to afflict the world.<sup>1</sup>"

Let us take into consideration the individual. In considering the individual we must say that his life is not a long run but a short run. By that I mean that those who are young, say for instance in their twenties or thirties, why if they are normal human beings, they are able to live through the short run and to participate in the greater prosperity, if there be any. This case is very different for those who make up the older generations, who are forty and beyond. For these older generations the short run is too often the last run. Depressions always mean throwing on "the competitive scrapheap hundreds of thousands-and taking the world as a whole - millions, who somehow or other must live out purposeless lives, too often degenerating physically, mentally and spiritually". These human wrecks left behind as a result of depressions, are things not seen, or, to use a frequent phrase in economics, they belong to the unseen. This simply means that they do not come into the popular consciousness, but they are one of the permanent terrible results of depressions.

1. Richard T. Ely "HARDTIMES; WAY IN AND THE WAY OUT" The Macmillan Company, New York, 1931. pp. 4-5

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## History of Depressions

"Economic life has become hard, cruel and relentless in a ghastly manner." Pope Pius XI

There are certain terms which we have to make clear by defining them. The term "Crisis" is very often employed to cover the whole part of the cycle in which hard times prevail. But it is, however, more properly applied to the point in the process when contraction proceeds rapidly and liquidation becomes fairly general. The long period of stagnation that usually follows is properly denominated by the term "depression". The term "panic" is often used interchangeably with "crisis", but it is more properly restricted to an acute phase, not always appearing in crisis, when the consciousness of impending disaster is widespread, and leads to more or less unreasoning acts calculated to aggravate the conditions dreaded. While crises and depressions are usually associated, this is not always the case. Every crisis, panic, or depression is marked by analogous characteristics. Whatever data are appropriate to show expanding conditions and an inflated condition of business at any particular time and place will exhibit a similar showing. For an example take the condition in the United States particularly since 1840, the railroad construction has been a favorite index of conditions, but before the crisis of 1837 similar activity was shown in canal construction.

There are the depressions of industry over whole countries, often international in their range, taking years to run their course, and connected with far-reaching social problems. On the other hand, we find there



- "1773. Holland. Failures exceed \$50,000,000
- "1793. England. Owing to French war. Government issued \$25,000,000 Excheques bills
- "1799. England. Panic at Liverpool. Government lent \$2,500,000 in exchequer bills on goods. Eighty-two failures at Hamburg.
- "1814. England. 240 banks stopped payment
- "1825- England. 770 banks stopped payment owing to failure of South Sea bubble companies, owing to the distress occasioned by the consequence of the panic; families in Yorkshire were reduced in 1829 to live on bran. From the same cause about 200,000 families emigrated to the continent, America, etc. in four years.
- "1831. Calcutta. Failures \$75,000,000
- "1837. United States "Wild Cat" crisis
- "1847. England. Owing to excessive railway speculation. Failures \$100,000,000. Discount rate, 13 per cent.
- "1857. United States. Failures \$555,000,000  
Minor crisis in England.
- "1866. London. Owing to overspeculation, total failures about \$500,000,000. The last of the serious panics.
- "1873. United States. Heavy failure in New York and elsewhere.
- "1884. Giant and ward and Marine Bank failures
- "1885. London. Much temporary disturbance owing to expected Russian War.

4.

"1890. London. Baring Crisis. Liabilities guaranteed by English banks.

"1892. Financial crash in Australia

"1893. United States. The silver crisis, also by some attributed to fear of changes in tariff by the Democratic Party.

"1907. United States. Crisis brought about by reckless speculation and improper management of financial institutions.

"1914. World-wide, due to the war. "There are also two panics which come in later such as that of 1921 and 1929, which were due to over-speculation in farm lands.

A period of depression cuts down the existing stock of goods, and the retrenchment of production, coupled with the constant increase of population, creates a void in the market. To fill this there is a renewed activity, as prices begin to rise, existing plants found it difficult to meet the demand. Plants are remodeled and extended. Preparation for future production on a large scale takes place. Large investments of fixed capital are made in buildings, machinery, and the like, those branches of industry which chiefly serve the purposes of construction, such as the iron industry, make extraordinary advances, mills and railroads are built to supply on anticipated demand. This is usually overdone, and the facilities of production increase more rapidly than the effective demand for products. Credit is unduly expanded, and it is natural that the money markets feel the first shock when the inevitable readjustment takes place.







7  
trade----

"The contempt of risk and the presumptuous hope of success, are in no period of life more active than at the age at which young people choose their professions. How little the fear of misfortune is then capable of balancing the hope of good luck, appears still more evidently in the readiness of the common people to enlist as soldiers, or to go to sea, than in the eagerness of those of better fashion to enter what are called the liberal professions."

Well this is our optimism, it is something that should not be suppressed, but which has to be curbed and held within bounds, first by individual training and discipline, and, secondly, by our social and economic institutions.

There are many other causes for depressions such as speculation, overproduction, overinvestment, and others which fall in the same category. T

These are some of the causes for the present depression; "War debts, the loss of our foreign markets, retaliatory tariffs, mass production by other nations, the building of plants and factories in Canada, England and Continental Europe by our leading manufacturers, the false and excessive valuation of our securities prior to the crash of the stock market in 1929 and their subsequent deflation, the accompanying and unprecedented decline in the value of real estate, the paying of debts contracted prior to 1929 with the now more valuable dollar of 1933, the inflexibility of our currency, the Government Guaranty of Bank Deposits, the farm problem and

1. Adam Smith, "An Inquiry into the Nature and Causes of the Wealth of Nations" (Edwin Cannan, ed.) G. P. Putnam's & Son, New York, 1904, pp. 109-



is worth. That the chance of gain is naturally overvalued, we may learn from the universal success of lotteries. The world neither ever saw, nor ever will see, a perfectly fair lottery; or one in which the whole gain compensated the whole loss; because the undertaker could make nothing by it. In the state lotteries the tickets are really not worth the piece which is paid by the original subscribers, and yet commonly sell in the market for twenty, thirty, and sometimes forty per cent advance. The vain hope of gaining some of the great prizes is the sole cause of this demand. The soberest people scarce look upon it as a folly to pay a small sum for the chance of gaining ten or twenty thousands pounds; although they know that even that small sum is perhaps twenty or thirty per cent more than the chance is worth. In a lottery in which no prize exceeded twenty pounds, though in other respects it approached much nearer to a perfectly fair one than the common state lotteries, there would not be the same demand for tickets. In order to have a better chance for some of the great prizes, some people purchase several tickets, and others, small shares in a still greater number. There is not, however, a more certain proposition in mathematics, than that the more tickets you adventure upon the more likely you are to be a loser. An adventure upon all the tickets in the lottery, and you lose for certain; and the greater the number of your tickets the nearer you approach to this certainty.

"That the chance of loss is frequently undervalued, and scarce ever valued more than it is worth, we may learn from the very moderate profit of insurers. In order to make insurance, either from fire or sea risk, a trade at all, the common premium must be sufficient to compensate the common losses, to pay the expense of management, and to afford such a profit as might have been drawn from an equal capital employed in any common



its many ramifications, chain stores, installment buying, hoarding, politics, excessive taxation, the employment of women and particularly of married women, crime, racketeering, prohibition and dozens of others are all causes which have been blamed for present plight. Each of these causes has its own specialists, who declare that the particular subject in which they specialize is the primary cause of all of our trouble and urge, with great sincerity, that the elimination or rectification of that one cause will restore to us economic health."<sup>2</sup>

A prevailing spirit of optimism will help business men...  
 a spirit of pessimism...  
 who are for very suspicious and other persons who may indeed remain un-  
 noted. These hold off when others press on, and venture freely when others  
 retreat. For these individuals are as sure as the parade the leader  
 should in a mob or quiet in a cheering crowd. It appears to be that most  
 these are caused by the inclination that survival. They will perhaps enter  
 the subject of welfare and what was the world about then is said  
 after.

"Social attitudes - the state of the public mind - is the  
 most element in creating prosperity or depression." Each business man  
 is in a real interdependence. The business men are chiefly buying and  
 selling with each. Only the retail business, and such industrial as direct  
 labor, are dealing with final consuming public. Take for instance the  
 car of iron and steel will be the maker of machinery, he in turn is the  
 customer, he in turn is the wholesale agent or jobber, he is the retailer,  
 every one of these, unless produced in almost unlimited quantity, will  
 have had his account, necessarily limited to what others will buy or sell.

2. The Depression and A Suggestion Judge Wm. H. Byrnes, Jr.

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## Psychological Factors

"Human society appeared more and more divided into two classes."

Pius XI

A pervalling spirit of optimism fills most business men in times of activity, as a spirit of pessimism does in times of depression. There are few very sagacious and sober persons who may indeed remain unaffected. These held off when others press on, and venture freely when others hesitate. But these individuals are as rare as the persons who remain rational in a mob or quiet in a cheering crowd. It appears to be that most business men respond to the influences that surround. They will perhaps enter on new enterprises or enlarge old ones when the world about them is doing likewise.

"Mental attitude - the state of the public mind - is most important element in creating prosperity or depression." Each business man rests on a real interdependence. The business men are chiefly buying and selling with each. Only the retail tradesmen, and such industries as street railways, are dealing with final consuming public. Take for instance the maker of iron and steel sells to the maker of machinery, he in turn to the manufacturer, he in turn to the wholesale agent or jobber, he to the retailer. Well every one of these, unless possessed of almost unlimited capital or credit on his own account, necessarily depends on what others will buy of him.

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Just whatever his own opinion of the source or extent of ultimate demand, the direct influence on him comes from those who stand next in the long line of apparently separate, yet essentially interdependent, operations.

Let us take in the middleman for a little discussion because he is so often left out of the picture. When I speak of the middlemen, I mean the wholesalers and jobbers and retailers. These constitute the immediate purchasing public for the "producers". Why, when they buy freely business is brisk; when they hold off, business is dull. They are not the only ones subject to the psychological contagion; they are also moved by very simple calculation of profits and loss. In this case it is well for me to quote the Economist F. W. Tawssig who so clearly brings out the idea of the middlemen:

"Their operation are almost exclusively in the simple purchase and sale of goods and their success depends almost solely on prices. They buy freely when they think that prices will rise, and cut down purchase when they think that prices will fall. The very fact that they so think, and accordingly act, accelerates the rise of prices in the one case, and accelerates the fall in the other. During an up - swing period, they add to their stocks, thinking to sell them at an advance, or at least to protect themselves against a later rise in the prices of what they buy. Then comes the shock, a bad failure, a financial panic. They jump to the conclusion that things are going down, countermand old orders as far as possible, give no new ones, live from hand to mouth in their purchases and sales, and wait until they think that prices have touched the bottom. Sooner or later a good crop, the unexpected profitableness of some new venture, a turn in foreign trade, - some such



event gives the start to a new upward movement. The middlemen reach the conclusion that it is time to buy again, and to take advantage of low prices. Business becomes more active, optimism returns. Prices go up, and go up the more certainly and quickly because all the dealers now think they will go up, and buy in consequence. There is thus an accumulation of extra stocks in their hands in times of rising prices, and a depletion in times of low prices; some really increased flow to consumers at the one stage, some really lessened flow at the other; but also an alternate excess and deficiency of the supplies held in the middlemen's reservoirs." <sup>2</sup>

A thought on the present depression. Facts and

Faith for Prosperity

"Mental attitude -the state of the public mind - is the most important element in creating prosperity or depression. What we will to do we can do. I can see no reason for business men to be pessimistic, they should get and force the facts of the whole commercial situation.

"In the Summer of 1929 our people were publicly optimistic. They felt that business had eliminated its ups and downs. We were all romancing about prosperity. Then came the crash. In 1929 the mass of the people has no regards for facts, and because they have little knowledge of the decisive elements in the present situation they are gripped with depressive fear--fear of the future which paralyzes initiative, constructs buying, and slows down recovery.

2. F. W. Taussig "Principles of Economics", The Macmillan Company, New York, 1920, Vol.

"Many economists feel that the bottom of the depression has been reached. There are signs of recovery. Conditions should improve- they will if we only communicate our confidence on to the another." 3

3. The Speakers Magazine, Feb., 1933 Vol. 4. No. 1 and 2. Published Monthly by The Speakers Library

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### Methods of Recovery

"Why stand you here all the day idle?

They to him; because no man hath hired us."

Matt. XX, 6-7

Before going into the discussion of methods I would like to quote a selection from Carlyle's Essays, which is as follows:

"Work is the mission of man in this Earth. A day is ever struggling forward, a day will arrive in some approximate degree, when he who has no work to do, by whatever name he may be named, will not find it good to show himself in our quarter of the Solar System ---

"Can the poor man that is willing to work, always find work, and live by his work? Statistic Inquiry-- has no answer to give. Legislation presupposes the answer--to be in the affirmative. A large postulate; which should have been demonstrated, made indubitable to all persons!

"A man willing to work, and unable to find it, is perhaps the saddest sight that Fortune's inequality exhibits under this sun. Burns expresses feelingly what thoughts it gave him: A poor man seeking work; seeking leave to toil that he might be fed and



sheltered! That he might but be put on a level with the four-footed workers of the Planet which is his! "There is not a horse willing to work but can get food and shelter in requital; a thing this two footed worker has to seek for, to solicit occasionally in vain. He is nobody's two-footed worker; he is not even anybody's slave. And yet he is a two-footed worker; it is currently reported that there is an immortal soul in him, sent down out of Heaven into the Earth; and one beholds him seeking for this! -- Nay, what will a wise Legislature say, if it turns out that he cannot find it; that the answer to their postulate proposition is not affirmative but negative?"

✓  
 In the past there were many methods used in order to relieve the people of the short periods of depressions. Those methods only served for a certain length of time, then new methods were adopted for each period. For instance the moratorium was invoked to save a situation in England for 30 days. Later this was extended to France, Russia, Austria, Hungary, Italy and practically all European countries followed this precedent; and established a moratorium lasting several months, while Germany covered the situation by ruling that foreign balances could not be sued for under three months. In the United States there was a general extension of time on all classes of indebtedness.

1. Carlyle, Essays, VI, 122, 124, 125

The English banking system had to bear the principal weight of the first blow being the "world's banker", and creditor of banks and large mercantile houses all over the globe. At first gold passed into London but later the tendency was toward the United States, owing to the heavy expenditures here for war materials.

England also adopted a Rediscount method, in which Germant played an interesting part. Later the United States organized a method of banking known as the "Federal Reserve System".

So much for the past, let us examine the present conditions and problems that confront the people of our country today. The world at present is in a social disorder. In this present depression we are simply meeting the accumulated wrongs of five centuries. Right along we have let the few get as rich as possible, refusing to organize economic life for justice and economic wisdom and kept government at arms length. Therefore you can readily see that the crisis has come and it is the greatest because of the many material changes of this generation.

In the guild cities of the Middle Ages property ownership was widely distributed. Sorry to say, but it is now enormously concentrated. We will have to have distributed ownership again.

All occupations were organized into guilds at that time and the guilds worked closely together. Occupations are now disorganized; or when people are organized they are organized to dominate, and such are the trade associations; or fight, and such are the trade associations and the labor unions. "We will have to build a democratic

cooperation between the union and the trade associations in each industry, a guild structure for every occupation and a federated unity of the guilds in the common economic life of the country so as to establish the high level of leisure and livelihood that ought to exist and that has to exist if the new economic change is to be used.

"Governments are tools of the rich and confused, half-hearted, timid, and inadequate guardians of the poor. We need active governments committed to social justice and the common good.

"In a closely knit economic world we have a mixture of economic nationalism and the international imperialism of finance. We must have a social organization of world economic life and a governmental organization to assist in coping with the problems of a new world.

"Above all we have to change our mental furniture. Here is our chief trouble. We were unfit to meet the great material change in the closing years of the Middle Ages, and the greater one in the age of the discoveries and colonization; the Christian world went individualist in the Protestant countries and increasingly secularist in the Catholic countries. We were unfit to meet the still greater one during the Industrial Revolution; nearly the whole world went pagan. We are now unfitted to meet a period of even greater material production and transformation. The essential thing is that we have to seek our social salvation again in the teachings of Christ."

1. Except from address delivered by Rev. R. A. McGown, assistant director, Social Action Department, N. C. W. C.



The two greatest problems which confront the government at present are unemployment and currency. I should think that just as soon as the government gives the people work and not merely employment but a living wage, conditions would slowly rise to normal times. The present legislature is trying its best to solve the problems, but it takes more than the legislature itself to complete a program. It must have the cooperation of every individual citizen throughout the nation.

As we read the newspapers, magazines and periodicals we find that the unemployment situation in this country is increasing and increasing. The present total of unemployed workers in this country has reached around twenty-five or thirty million.

In order to relieve these unemployed workers, the relief agencies that have been started - in the various relief is not a mere matter of giving the people money as will be done in later times - is the same as money agencies that before. But take for instance the money relief work that are being carried through out the country, such as, the Reconstruction Finance Corporation, the Reconstruction Program, Inflation of Currency, and many others which are the identical nature. These programs will not last very long. It is just a matter of time as soon as the relief is over the people will find themselves back in the old position again.

In order to solve this worldwide depression, I would simply suggest that the countries establish social institutions whereby

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A Suggestion

Every one at present is talking about some methods or either offering some methods that he thinks will relieve or solve the present social disorder. Many of the great Economists of the world are offering special programs for that particular field of work which they have specialized and frequently ignoring all other fields which make it all the more confusing in the minds of our people.

As we read the newspapers, magazines and periodicals, we find that the unemployment situation in this country is increasing, not decreasing. The present total of unemployed workers in the country has reached around twenty-five or thirty millions.

In order to relieve these unemployed workers, the relief systems that have been adopted will not solve the problem. Relief is not a sure method of solving any problem, because we will sooner or later find ourselves in the same or worse condition than before. Just take for instance the money relief works that are being advocated throughout the country, such as, the Reconstruction Finance Corporation, Reforestation Program, Inflation of Currency, and many others which fall in the identical category. These programs will not last very long. It is just a relief and as soon as the relief is over the people will find themselves back in the old position again.

In order to solve this worldwide depression, I would simply suggest; that the countries establish social institutions whereby

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the individual citizen will be educated along the line of social and economic problems.

By doing so the mass of people throughout a nation will become better able to meet the situations when they appear. In these social institutions the individual should and must be taught the principles of economic and social practices.

For it is a known fact that the masses are not informed, and decidedly not schooled in international thinking. We must not be afraid to face the fact. They are quite ignorant of the history of other countries. Consequently, the more simple our language and more simple our presentation of ideas and historical facts, the greater will be our influence. Furthermore, we must appeal to the reason, if we are to succeed. We cannot merely appeal to the emotions in our talks, any more than we should appeal to the emotions in the times when war threatens. These feelings of the individual must be supported by clear and definite principles and a sense of realities.