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Recovery Spring, Faltering Fall: March to November 1933

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ABSTRACT

Recovery from the Great Depression began in March 1933, simultaneous to Franklin Roosevelt's inauguration. However, the pace of that recovery between that date and the Second World War was extremely uneven with some dramatic starts and stops. Between March and July 1933, manufacturing production rose 78%, production of durable goods was up 199%, total industrial production rose 57%, and the Dow Jones Industrial Average rose 71%. Then the economy contracted sharply again beginning in August 1933–the July 1933 level of industrial production was not reached again until August 1935. This paper addresses two questions. What factors were responsible for bringing about the sharp recovery in the spring of 1933 and what factors brought this short-lived economic surge to an end?

1. Introduction

The financial crisis of 2008 has placed renewed interest upon what may be its closest historical precedent, the downturn of 1929 to 1933. Initially scholars focused heavily on parallels in the causes of the two slumps, but more recent emphasis has been placed on aspects of recovery. While there is general agreement that recovery from the Great Recession since 2009 has been slow and unsteady, the swiftness of the recovery from the Great Depression is a source of debate. Those impressed with the recovery note that 1933 to 1937 saw the fastest four-year growth in US history. Others express disappointment in the recovery by noting that the unemployment rate remained between 14 and 20% until the outbreak of war in Europe.

But there can be no debate that the start of the recovery, which was almost simultaneous to Franklin Roosevelt's taking office in March 1933, was spectacular. Between its March nadir and July manufacturing production rose 78%, production of durable goods was up 199%, industrial production rose 57%, and the Dow Jones Industrial Average rose 71%. Nearly every aspect of the US economy kicked into a gear that has never been seen before or since. If one calculates the four-month growth rates in Industrial Production and Manufacturing Production for every month between November 1884 and May 2014, the March to July 1933 period growth rates are by far the largest.[1] Excluding periods containing March to July 1933, the next largest four-month period of growth in the United States since 1884 was September 1934 to January 1935, with growth rates of 21.3 and 23.2 in Industrial Production and Manufacturing respectively—around one-third of the growth rates that occurred during the spring of 1933.

While such a torrid pace of growth could not have continued indefinitely, it is interesting to note that had industrial production risen at the 12% per month clip it averaged in April, May, June, and July for 3 more months, it would have exceeded its 1929 peak and reached a level it would not ultimately reach until 1936. Had it grown at this rate for one additional month (i.e. 4 total), industrial production would have exceeded its 1929 levels plus a 3% growth trend, a level it would not reach until the Second World War. This is illustrated in Fig. 1, where a dashed line extrapolates growth in industrial production at the March to July pace through November 1933. We do not at all mean to imply that the dashed line is a counterfactual—one would strongly expect growth would naturally slow as the economy approached its productive capacity. The line is only meant to show how remarkable these four months of growth were by considering what would have happened had they been duplicated.

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[1] For 1884 to 1919, we employed the Miron–Romer seasonally adjusted measure of industrial production and for the post 1919 era we used Federal Reserve Board Industrial Production and Capacity Utilization (G.17), Major Industry Groups, Series B50001.S (Seasonally Adjusted) (Romer, 1994).

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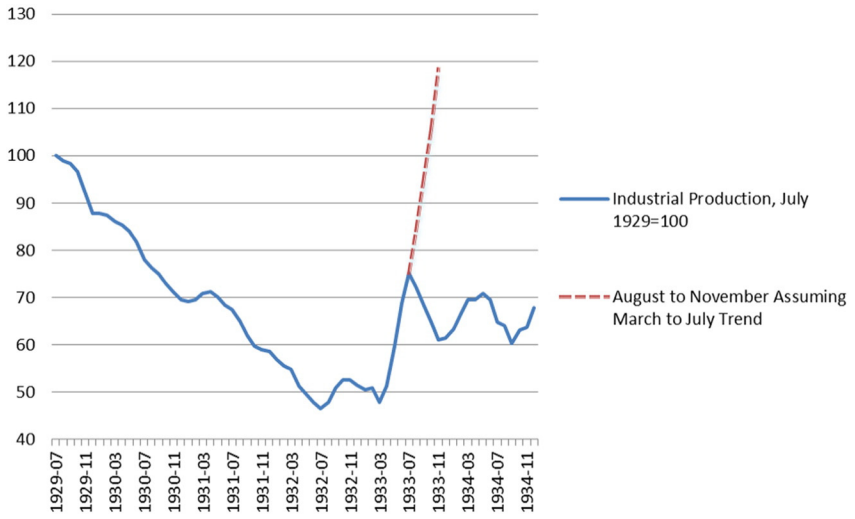

Fig. 1. Industrial Production, 1929–1934. Dashed line shows August through November 1933. Had growth continued at 12% per month trend of March to July. *Source:* Federal reserve industrial production and capacity utilization (G.17), major industry groups, series B50001.S (seasonally adjusted).

Fig. 1 also illustrates that a significant plunge in industrial production began in August 1933. From August to November 1933 manufacturing production fell 31%, production of durable goods fell 48%, and overall industrial production fell 19% making this four-month downturn more severe than the 18 month "Great Recession" of 2007–2009 and quite comparable to the depression of 1920–1921. Much of the progress that Recovery Spring brought was offset by the sharp contraction of the late summer and fall of 1933. While a slowdown in growth was inevitable, such a dramatic turnaround from speedy growth to rapid decline begs an explanation. The economy did not again reach its July 1933 level of industrial production until August 1935, at which point it once again began to surge, growing 37% over the next 20 months.

This paper has three major goals. First, it documents the extent of the recovery that took place in the spring of 1933. Second, it explores potential factors that drove the recovery. Inflationary expectations have been highlighted in the past literature, but there are several additional factors that could have played supporting roles including financial reforms, currency devaluation, increases to consumer and business confidence, and anticipation of cartelization. Third, it analyzes the causes of the downturn that began in August 1933.

2. An unparalleled economic season: Recovery Spring 1933

Hindsight clearly shows that when Roosevelt took office on March 4, 1933, the US economy was at the bottom of a three and a half year slump—the longest and steepest downturn in the nation's history. One may argue that an unprecedentedly sharp recovery could have been expected given the extraordinary depth of the downturn. For some historical perspective, Table 1 compares the five-month recoveries in industrial production and in manufacturing from the four largest downturns of the last 100 years—1920–1921, 1929–1933, 1981–1982, and 2007–2009. The table shows how far each measure was below its prior peak and how much each had risen five months after the trough. While it is certainly true that the downturn of the 1930s was much more severe – only 1920–1921 even comes close in terms of how far the trough was below peak – it is also clear that the recovery that occurred in the spring of 1933 was unprecedented both in absolute as well as relative terms.

Table 1
5 month recovery of industrial production and manufacturing during four major downturns.

Recession	Industrial production		Manufacturing	
	% decline from previous peak	% rise 5 months after trough	% decline from previous peak	% rise 5 months after trough
1920–1921	32.54	1.42	34.82	2.74
1929–1933	52.20	57.45	55.38	66.67
1980–1981	9.22	3.37	21.22	4.60
2007–2009	17.04	2.98	20.39	3.22

Source: Federal reserve industrial production and capacity utilization (G.17), major industry groups, Series B50001.S (total index) and B00004.S (manufacturing SIC). Both series are seasonally adjusted.

It is possible that some of the wide month to month volatility seen in industrial production is measurement error. To gain perspectives broader than simply production of manufacturing output, Table 2 shows the percentage movement in the Dow Jones Industrial Index (DJIA), employment in manufacturing (measured in number of workers on payrolls), average hourly workweek in manufacturing, and hours of labor input (number of workers on payrolls * average hours per week) between the peak of August 1929 and the trough of March 1933, the "Recovery Spring" time period of March through July 1933, and the July 1933 peak though November 1933. Additionally, to see whether different types of production markets were affected differently, we include percentage movements in farm marketings, producer goods, and consumer goods, as well as a broad measure of business activity. The recovery that began with President Roosevelt's inauguration occurred across the board, but was particularly strong in producer goods that surged nearly 115% in five months. It is noteworthy that even seasonally adjusted farm marketings were up nearly 5% between March and July 1933, although these gains were clearly dwarfed by those in the manufacturing sector.

Interestingly, this was not a jobless recovery simply driven by gains in worker productivity (output per labor hour). The average number of hours per week rose from 32.1 in March 1933 to 42.9 in July, reducing the nation's underemployment problem. Likewise number of workers on payroll in manufacturing rose from 5,029,000 in March to 6,155,000 in July. Putting these two forces together, total labor hours in the manufacturing sector increased by over 103 million hours, a 63.57% increase, in just five months.

To further address the extent to which the output burst of Recovery Spring was facilitated by either productivity enhancements or businesses expanding employment, we analyze a few important industries. Industry employment data are reported as indices rather than actual number employed. Still we can roughly approximate productivity growth in an industry by subtracting the labor input growth rate from the growth rate in the industry's output, where the labor input growth rate is calculated as the monthly growth rate of the product of the

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