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Special Report – The Great Depression
September 2020



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A look back on the Great Depression of the 1930's

I am reading a novel by Canadian writer Pierre Berton called the "The Great Depression – 1929-1939". Though not always on-board philosophically with his views, he does a great job of recounting the Great Depression in Canada, and his novel was #1 for 40 weeks in Canada since its release in 1990.

What I would like to do is highlight some excerpts from the first two chapters "1929" and "1930" as I think they may be quite relevant to today's environment. I hope you enjoy these excerpts and are able to draw context with today.

I thought I would start off with a quote from another famous literary piece besides Berton, regarding Depression or pre-Depression eras. This one from the famous novel "War and Peace" from Tolstoy relating to the attitude in Moscow in the early 1800's before Napoleon invaded Russia and ultimately overtook Moscow (highlights are mine)...

*"With the enemy's approach to Moscow, the Moscovites' **view of their situation did not grow more serious but on the contrary became even more frivolous, as always happens with people who see a great danger approaching.** At the approach of danger there are always two voices that speak with equal power in the human soul: one very reasonably tells a man to consider the nature of the danger and the means of escaping it; the other, still more reasonably, says that it is too depressing and painful to think of the danger, since it is not in man's power to foresee everything and avert the general course of events, and it is therefore better to disregard what is painful till it comes, and to think about what is pleasant. In solitude a man generally listens to the first voice, but in society to the second. So it was now with the inhabitants of Moscow. It was long since people had been as gay in Moscow as that year."*

Gosh, sounds familiar in light of record high stock market prices today. Worrying more today about the environment and what food we eat than people's jobs or whether the economy will survive. There seems a false sense of comfort people have that government has "got their back" with excessive money printing to save us from this economic situation.

Lets not paint negative pictures, but we must put ourselves in context of what it was like in 1929 before the Great Depression to determine if there may be some similarities. I have chosen to use excerpts from Pierre Berton's novel to assist in this process (*unless otherwise stated, all italicized quotes below are from Berton's novel, and all quotes highlighted in bold are my highlights on Berton's quotes*)...



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First of all, the Great Depression was a “cleansing event” and may have seemed horrible at the time, but to many it was a necessary event to positively grow from:

*...“I have worked. I don’t think I ever had a job that was only eight hours a day. I worked for fifty-six years. I never lost a day’s work in all those years. I was determined that I would never lose my family. I would work twenty hours a day if necessary to overcome it; which I did. **The Depression helped me because it gave me that determination that I had to go ahead and work.**”...*

Let’s look at the unpredictability and scope of the Great Depression:

*...Nobody could tell exactly when it began and nobody could predict when it would end. At the outset, **they didn’t even call it a depression. At worst it was a recession, a brief slump, a “correction” in the market, a glitch in the rising curve of prosperity.** Only when the full import of those heartbreaking years sank in did it become the Great Depression – Great because there had been no other remotely like it and (please God!) there would never be anything like it again...*

*...The germs were already there in the hot, dry summer of 1929, when the crops began to fail on the southern prairies and the boom ran wild and out of hand and the country continued to overbuild on borrowed funds. **The Great Depression was beginning, and nobody knew it.** The Great Depression was already under way but nobody cared...*

*...**The statistics of those times are appalling.** At the nadir of the Depression, half the wage earners in Canada were on some form of relief. One Canadian in five was a public dependant. Forty per cent of those in the workforce had no skills; the average yearly income was less than five hundred dollars at a time when the poverty line for a family of four was estimated at more than twice that amount...*

*...If the Maritimes appeared to suffer less it was partly because they had always been in an economic slump, and, except in Cape Breton, there were fewer industries to close and throw people out of work. But nature devastated the West; by 1937, two-thirds of Saskatchewan’s farmland had turned to desert. Outside the drought country, **cities such as Winnipeg, Edmonton, and Calgary suffered the most.** British Columbia, Canada’s fastest-growing province, was almost as badly off, especially in Vancouver where a flourishing building boom quickly collapsed...*

Rather than a drought like the dirty ‘30’s, the decimation by our government of the oil industry of the past few years may be the catalyst for our hard times now, adding on a disease outbreak of course. It makes the above description sound awfully familiar doesn’t it?

*...To those of us who look back across the twentieth century at 1929 and who have seen later recessions come and go and cycles of drought appear and vanish, this mindless optimism seems incredible. But **Canada had just come through some thirty-five years of unparalleled prosperity,** interrupted only by the Great War and a mild slump in the early twenties. Laurier’s famous remark about Canada’s Century was on everybody’s lips, and with good reason. From 1896 to 1912 the boom had roared on, fuelled by an unprecedented immigration explosion...*



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*...It is easy enough to look back on that buoyant and carefree summer of 1929 and ask **why nobody saw trouble ahead**. The signs were clear. The country was heavily overbuilt, the export market was fragile, wheat prices were falling, the stock market was impossibly high, and unemployment was rising. No one appeared to notice. The Canadians of those times seem to us to have been dancing blindfold on the lip of a precipice. They lolled in their summer cottages playing cheerful melodies – “Happy Days Are Here Again,” “Keep Your Sunny Side Up” – on scratchy gramophones...*

Now let's look at the government response in the 1930's compared to today. Too big to fail? Bombardier? Banks? Air Canada? See if this sounds at all familiar...

*...The most shocking statistic of all reveals that **the federal government from 1930 to 1936 spent more of the taxpayers' money to service the debt of the Canadian National Railways than it did to provide unemployment relief**. That debt was the legacy of the great Canadian boom. The builders of the Canadian Northern and the Grand Trunk Pacific (not to mention the government's own National Transcontinental), revered as audacious and far-seeing captains of industry, left a questionable legacy. The bondholders enjoyed a free ride on the backs of the people. Where was “fiscal responsibility” then? **Without that burden of debt the government could have doubled its relief payments to every family in Canada...***

*...The country was a victim of its own ambitions. We were so ecstatic over the triumph and success of the first Pacific railway that we went railway mad. One railway wasn't enough; we had to build three – an extravagant and wasteful venture. The new lines often ran parallel to one another even in long stretches of unproductive land. When the railway craze ended and the new railways went broke, the government was forced to take them over. **But it was the taxpayers and not the bondholders who were saddled with the crushing debt of the hybrid CNR...***

People became disenfranchised with the government and began looking for solutions outside the normal realm of society...

*...In their search for a way out of the economic dilemma, some embraced new ideologies – **communism, socialism, fascism...***

*...Three new premiers – **Aberhart of Alberta, Hepburn of Ontario, Duplessis of Quebec – were swept into office on populist platforms. All turned out to be authoritarians, perfectly prepared to trample on the rights of those who opposed them...***

Even the Prime Minister at the time had an opinion...

...Mussolini was a “truly remarkable man of force of genius, fine purpose, a great patriot.”...

In tough times, people started searching for national solutions, considered too socialistic in good times, but perfectly acceptable in these special times. Gosh, what a legacy these decisions have left us. Look at these “nationalist” agendas and tell me whether you think they were forward progress or not?...



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...The Depression also played havoc with laissez-faire. For the first time, Canadians began to realize that government must interfere in the private affairs of the nation. The Canadian Wheat Board, the Bank of Canada, the Canadian Broadcasting Corporation, and Trans-Canada Airlines were among the public corporations born of those hungry years. Anyone who advocated today's social services in the pre-Depression era would have been considered a dangerous radical – and, in truth, some were. But the hard times changed people's outlook...

A good friend of mine, rancher Jack Olson, once was heard saying that “recessions take money from those that don't deserve it, and distributes it to those that deserve it”. I love that quote. Every time a recession comes, things get cheaper for those who have been living frugally. Depressions and recessions are not always to be feared...

...Yet for a good many Canadians there were no hard times. For those who held a decent job, the thirties was a wonderful period. Because of deflation, everything got cheaper. A single man making fifty dollars a month wasn't exactly on Easy Street, but he wasn't poor either. He could buy a hamburger for a dime. He could take his girl to dinner and a movie for two dollars; he could buy a tailored suit with two pairs of pants for twenty.

...“I'm glad I grew up then. It was a good time for everybody. People learned what it means to work,” said John David Eaton (quoted in the novel).

I thought it relevant to include a quote from the Good book about fear and faith, standing firm in tough times...

"Blessed is the man who trusts in the Lord, whose confidence is in him. He will be like a tree planted by the water that sends out its roots by the stream. It does not fear when heat comes; its leaves are always green. It has no worries in a year of drought and it never fails to bear fruit." (Jeremiah 17:7-8)

I am a fourth generation rancher, and I think of my father saying that my great-grandfather accumulated the bulk of the ranch and his wealth during the 1930's.

Here are echoes of the froth in growing cities and wealth we have seen recently...

...The changing skylines of Canadian cities hinted at prosperity and progress. A new Hotel Vancouver was rising on the West Coast, while the fashionable Empress in Victoria and the equally fashionable Chateau Laurier in Ottawa had expanded with luxurious new wings. The Royal Bank opened its splendid new head office in Montreal. The Toronto Star got itself a skyscraper; Eaton's built a new art-deco store on College Street, just a block from the future site of the new temple to hockey that Conn Smythe was planning...

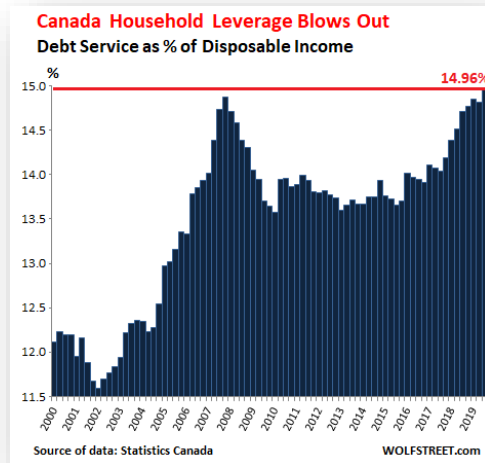
...When construction stopped, jobs vanished. Even before the crash, Canadian unemployment figures were rising. Investment in an overdeveloped, overstocked country made little sense, and speculative money started to dry up. But spending increased. The automobile had touched off another orgy of expansion. New roads had to be built on borrowed money, new suburban homes



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financed with mortgage loans. Dazzled by prosperity, people were spending more and saving less, living beyond their means on the instalment plan...

Reminds me of the construction in Calgary roads right now. Regarding mortgages, let me interject a chart for your reference (this doesn't include post-Covid numbers)...



Now back to the novel...

...Canada was in hock to strangers. Almost half the public debt and four fifths of the private debt were in foreign hands. The West was built on borrowed money. Everything from new towns to family farms was mortgaged at interest rates that would remain fixed when wages and prices tumbled. Yet the day was coming when deflation would bump up the real rate of interest from 6 per cent to 10 per cent...





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If the economy and wages are contracting, the cost of interest increases to average citizens. Their ability to pay interest and mortgage principle decreases when they make less money. This is what they mean by “real” interest rates.

So what had been the government’s approach to economic growth?...

*...Build a railway to the Pacific, Macdonald had decided; use it to populate the West, to haul wheat to the seaports, to carry Eastern manufactured goods, protected by high tariffs, to the settlers. But the railways were overbuilt, the good land was gone, the immigration flow was down to a trickle, the Eastern goods cost too much because of the tariff, and the foreign markets were drying up. **Every nation was taking the high tariff route, halting the international flow of goods and resources...***

The government’s tariff wars and half-hearted attempts at building pipelines come to mind. Much of this damage is already done, but as Mark Twain said, “History doesn’t repeat, but it often rhymes”...

*...Canada lived – thrived – on its exports, chiefly wheat and newsprint and to a lesser extent hydroelectric power and base metals. **If foreigners didn’t want to buy these natural resources, the country was in jeopardy because there weren’t enough Canadians to consume them.***

*...The price dropped, but the pools [Wheat Pool] held back, hoping for bigger profits, even though the elevators were bursting with unsold grain. **Once again greed and optimism were Canada’s undoing.** Her former customers turned to Australia and Argentina, and Canada, in spite of the poor crop in 1929, was stuck with a glut of grain...*

Some comments on the grain and drought situation at that time...

*...Palliser had seen the prairies at their worst. Unfortunately, an amateur botanist, John Macoun, saw them at their best when he visited the area in the 1870s. The triangle, he kept insisting, was “the Garden of the whole country.” His **bubbling and misplaced enthusiasm helped convince the CPR to change its route and take the line through the very country that Palliser had condemned...***

*...The great central plain of North America is never far from desert conditions at any time. A change of two inches of rainfall can cause a crop failure. The wet winds from the Pacific, spilling their moisture on the western slopes of the mountains, sweep hot and dry across the southern prairie. **This is really ranching country, but the overflow of immigrants, unable to get better farms farther north, invaded it during the first decade of the century, and broke it with the plough.** When the rains dwindled, the light soil was reduced to a fine dust that would eventually blow across the plains in clouds so thick they blackened the sky...*

This was devastating in the “Dust Bowl” era of Canada. Hopefully we have learned from this era about the importance of soil coverage, and regenerative agriculture techniques to avoid this type of catastrophe in the future!



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The market crash...

...The stock market was fuelled by borrowed cash. Shares could be bought from brokers for as little as 10 per cent of their value. Brokers, using the shares as collateral, borrowed the purchase money for their clients in the "call market." Nobody minded the high interest rates because the value of the stocks was soaring. If the stock went down, however, and the loans were called, the brokers would demand more margin – more cash – from their clients. Otherwise, the shares would have to be sold so that the brokers could raise enough money to cover the debt they had contracted...

One Day After Zero Hedge, FT "Unmasks" SoftBank As Call-Buying "Nasdaq Whale"

ZeroHedge; Sat, 09/05/2020 - 04:22

There is a theory that so many people are buying "call" options or placing leveraged bets that tech stocks will rise today, that the financial institutions that sell these call options to these investor have had to "hedge" the calls they sell due to such large exposure. They do this by buying the actual stocks such as Apple, Google, etc. thereby fuelling the rise in tech stocks of late. The more calls they sell, the more stock they must buy. It is a self-perpetuating loop that when it ends will end rapidly and badly. Firms such as Japanese owned Softbank that invested in the massively defunct Wework and Wirecard (both now bankrupt after spectacular stock price rises and scandals) have been found to be fuelling this craze much like 1929. Back to Berton's novel...

*...In the first two months of the year, the stock profits were astronomical – on paper. In January you could buy a hundred shares of Home Oil for \$350 with a down payment of less than \$50 and sell them in March for \$1,575. You could buy Royalite at \$65 and sell it for \$200, Okalta at \$30 and sell it for more than \$300. **But hardly anybody sold, because everybody believed stock prices would continue to rise.** And for another six months they did...*

Sounds like most tech stocks nowadays. For example, Tesla is up over 550% since the start of the year, trading 900X earnings.

*...It is easy to look back and ask: why didn't they take their profits out and sell before it was too late? But again, optimism and greed overruled prudence. **Why should anybody sell when the supposed experts were urging them to buy?** In July, the Financial Post took an informal survey of the country's leading brokers and investment bankers that "failed to reveal any person who is pronouncedly pessimistic as to the future." Indeed, how could any of these admit that they doubted the value of the stocks they were busily hustling to the public?...*



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...The first wave of selling began on September 6 and for the rest of the month the market was erratic. Prices dipped, rose, faded, and rallied, but the trend was down...

...October 4, when the New York market was hit by a hurricane of selling. The Toronto market followed suit, as it customarily did, recording a paper loss of two hundred millions...

...Even then, most people were convinced that the bottom had been reached and bargains were waiting to be picked up – a false optimism encouraged by the financial press, which had its own ends to serve...

...”Buy the dip” crowd got punished...

...Thousands who had bought on margin owed their brokers for well over half – even as much as 90 per cent – of the cost of the stock they’d bought. And what was “a well diversified list”? The office workers and housewives who could least afford losses had been lured into buying the most volatile shares – the ones that promised quick rewards. These would be the first to be swept away when the panic began...

*...Most were encouraged to hang on to their shaky investments when the market rallied slightly. By October 17 a modest recovery was under way. But on that day the Toronto exchange reeled under a heavy wave of selling, the worst since October 4. It was repeated on Wall Street on October 21. The following day the market rebounded. This uneasy roller coaster ride should have been a warning to the amateur speculators. For many, however, it came too late. They couldn’t afford to get out and so hung on, victims of the incurable conceit of the twenties. **Things could only get better – that was their justification...***

We have a “V” shaped recovery, they tell us, the government and central banks are going to keep a floor under our markets “forever” with low interest rates and money printing aren’t they? Why isn’t the general economy improving while the stock market makes all time highs then?

*...In the first hours of that day, traders who had exhausted their margin began to dump thousands of shares on the market. **Prudence gave way to fear and, as prices began to plummet, fear to panic.** An unprecedented wave of selling took place everywhere that day. Few who took part in that torrent would ever forget the wall of sound that rose from the exchanges in Montreal, Toronto, New York, Chicago, and Winnipeg...*

...Yet optimism still prevailed, especially when the heads of the three largest banks in the United States were seen, early that afternoon, hastening, singly, up the steps of the good, grey financial House of Morgan at the corner of Wall and Broad streets, kitty corner from the exchange...

...In Canada, the bankers followed the cheerful lead of their American colleagues. The man in the street might be pardoned for believing that the bottom had been reached, especially when the general manager of the Royal Bank announced that “fundamental conditions are sound ... and there is no room for pessimism.” But with the total value of shares on the Toronto Stock



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*Exchange dropping at the rate of one million dollars a minute, **the financial community could no longer put faith in its own press releases...***

So what was the end result of this stock market collapse?

*...**There was no longer any stock that could be called "blue chip."**...*

...The legacy of Black Tuesday was disillusionment. "Fundamentally sound!" shouted one man, as he dashed into his broker's office with the afternoon paper. "Fundamentally sound? Look: Tunney and Dempsey are in the ring, and Tunney knocks Dempsey out. There he is, lying on the canvas. Fundamentally sound? Sure he's fundamentally sound. But he's out."...

...a Toronto investor reached home on the evening of Black Tuesday to tell his wife he'd resigned from six clubs, sold their second car, put his garage up for rent, and cancelled all the family's charge accounts. After that he fired the maid and went to bed...

Looking at Canada politically and its status as a country during that time...

*...**Canadians were not prepared for the Depression that followed.** The businessmen weren't prepared, the politicians weren't prepared, and the people weren't prepared. The coming disaster would call for bold, imaginative action, but Canada, in the twenties, was not a bold or imaginative country. Unlike the United States, it had yet to find its feet as an independent, united nation. **Its semi-colonial status and its narrow regionalism had inhibited original thought and common endeavour...***

*...**The country's ten million people were cooped up in scattered population islands** that seem, in retrospect, to have been hermetically sealed...*

...sounds familiar looking at the last election how regionalized the voting was in Canada...

*...And **there was little sense of history.** Other nations revelled in theirs; Canadians thought theirs dull. Outside Quebec, the majority thought of themselves as British first, Canadian second; to them, Quebec was an unknown country...*

Society response to the crisis

Those out of work or dissatisfied with the system began to riot...

*...The press insisted on terming the incident a "riot," a peculiar name for an eruption of savagery that was planned and carried out by constituted authority. "Riot" would become the euphemism of the Depression, applied to any parade, demonstration, rally, or work stoppage that brought out the police and threatened the established order. **There would be quite literally hundreds of these so-called riots in the turbulent decade that followed.** In one year alone – 1934 – forty-three were serious enough to make the pages of the Toronto newspapers...*



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Fear and issues in other forms ran rampant...

*...but **they worried about diseases** that have since become almost unknown. Only a few vitamins had been isolated; there were no antibiotics and few vaccines. Houses were quarantined for as long as a month for a host of childhood afflictions, including the dreaded diphtheria. The real horror for the young was infantile paralysis, as poliomyelitis was called. Tuberculosis was as frightful a scourge then as AIDS today. In most cases it was terminal...*

Governments began to clamp down on public criticism or dissent...

*...That was bad enough, but **if you sneered at the sovereign, or indeed “any foreign prince,” you could be clapped into jail for sedition**... one man was. His name was Arvo Vaara, the editor of a Finnish-language newspaper, who went so far as to express indifference as to whether the ailing George V lived or died. For those dangerous views he served eight months of a one-year sentence...*

Citizens became protective of their jobs which were in more scarcity and scrutinized foreigners taking their jobs...

*...In good times, “foreigners” were welcomed as settlers, at the bottom of the social scale. In hard times they weren’t wanted at all, and **the fear of the newcomer would soon become a hallmark of Depression life**...*

Will we build walls if unemployment stays high?

The government’s lousy response and how things never change...

*...Mackenzie King’s Minister of Labour insisted that the crash hadn’t affected Canada as it had the United States. His **complacent remarks echoed those of the bankers who, as always, were seeing shafts of sunlight breaking through the dark economic clouds**...*

*...“Whom are we to believe,” the paper asked, “... the sober financial executives who say that conditions are essentially sound and full of hope for the future, or the politicians who declare that in many respects the country is in a deplorable state ...?” The sober financial executives, of course, were dead wrong. The country was in a deplorable state, for which the Honourable Mr. Bennett had no cure and which Mackenzie King simply ignored, in **the belief that the trouble would shortly go away**...*

*...Here was the crux of the problem. Canada’s unwieldy **constitution divided responsibility in such a way that the destitute could not rely on help from anybody**. Throughout the decade political leaders would lean on the BNA Act in order to pass the buck. If the provinces wanted help, King told the delegation, let them ask for it; but none had asked. The canny prime minister was well aware that any province that asked for government funds to pay for municipal relief would be forced to shoulder part of the burden...*



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*...The Prime Minister continued to think of the problem as seasonal. **The only way to deal with it, he had told the delegates, was through a system of unemployment insurance.** It was an easy out for King, since under the country's awkward division of powers, unemployment insurance was a provincial responsibility...*

Sounds like CERB, except they passed the problem down to banks, not provincial governments.

...Predictably, the business community was not enthusiastic about any increase in social services. "Whither are we drifting in this matter of socialistic paternalism?" asked the Montreal Gazette, the voice of St. James Street. "... While human nature remains as it is ... it is sheer madness to tell idle and shiftless men and women that the state will step in and save them from the penalties of their violation of fixed social laws."...

...Various speakers on both sides of the Commons attributed the unemployment situation to the high tariff, the low tariff, the wheat pool, the wheat crop, immigration, the gold standard, the stock market crash, world conditions, mechanization, the weather, American competition, foreign treaties, the reduction of purchasing power, the lack of technical education, the unprotected shipbuilding industry, and the lack of railway traffic...

...just like today, they still don't understand how booms and busts are created.

*...On April 3, the Prime Minister entered the debate in the House and, in the course of a long speech, managed to dig himself into a hole from which there would be no escape. His position was that the problem was purely local and required no infusion of funds from Ottawa. Why should the taxpayers of wealthy provinces be asked to take money from the federal treasury to help certain provinces and certain municipalities? It was a question that struck at the very underpinnings of the Canadian federal system and chipped away at the cement of national unity, which King himself had always made his cause. **The Prime Minister, in short, was suggesting that Central Canada – the hated "East" – should remain aloof from the growing destitution in the West...***

...oil and gas and western agriculture saw little relief funding during Covid, not unprecedented it seems, Mackenzie continues...

*...With respect to giving moneys out of the federal treasury to any Tory government in this country for these alleged unemployment purposes, with these governments situated as they are today, with policies diametrically opposed to those of this government, **I would not give them a five cent piece.**"...*

...he got roasted for this statement and it may have cost him the election, the attitude sure sounds very familiar though, doesn't it?

...The Depression had struck the West but was only beginning to be felt in Eastern Canada. Cushioned from reality in the green womb of his Kingsmere estate, Mackenzie King shocked the delegates by refusing to believe there was a crisis. "If the situation is



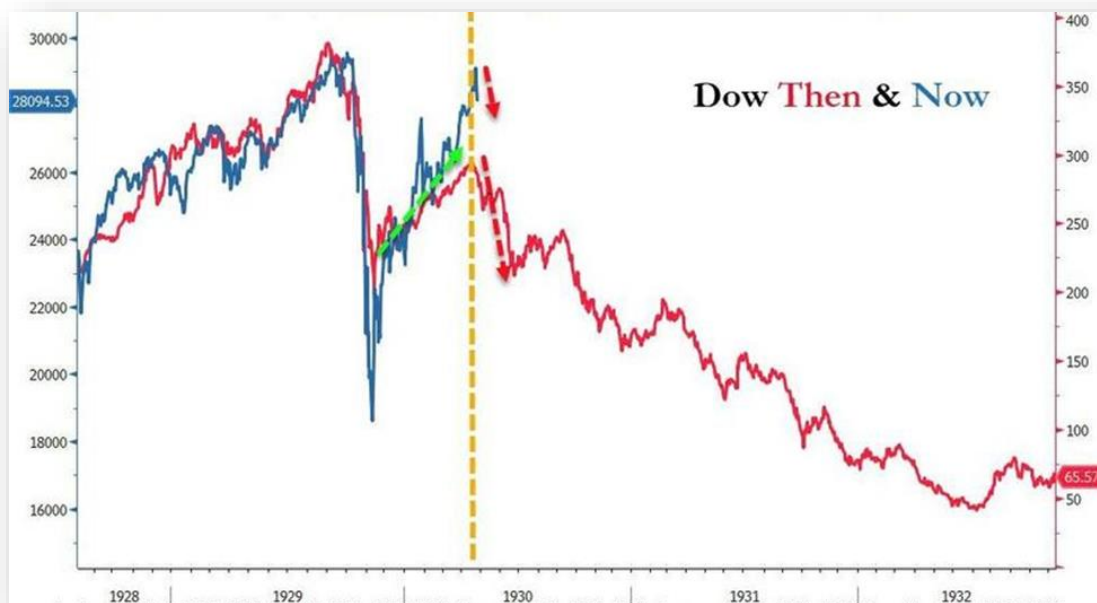
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so deplorable as you try to picture, why is not eastern Canada represented?" he asked Webb. "The answer is that, generally speaking, the employment situation in Canada is not abnormal. I have a telegram from the government of the province of Quebec that conditions there are quite satisfactory."...

Conclusion

After reading Berton's novel, I thought many of his recollections on the Depression era were hauntingly familiar and felt it worthwhile to share with you. I hope you have enjoyed this walk through history (or the present?)!

I leave you with this chart of today's stock market overlayed on the 1929-1933 stock market to give you context of what a depression era market would look like. I am not saying this will happen, but it is always good to prepare and be informed of what *could* happen, even if you are wrong.



Source: Bloomberg

Take care out there,

Ryan Copithorne
Cows in Control Inc.

Source of the quotes used in this article is from Pierre Berton "The Great Depression 1929-1939"; Pub. 1990

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