Name: ______________________________ Per: _______

Causes of the Great Depression Textbook Questions 280 - 284
All answers must be in **COMPLETE SENTENCES.**

1. Who was elected President in 1928 and what political party did he belong to?

2. Summarize in your own words what Herbert Hoover believed to be important in regards to labor, management, and government.

3. Summarize the public's confidence in the economy in the 1920s.

4. Answer all parts of this question. Why had farmers increased harvest yields and bought more land? Why did they buy costly equipment? Farmers typically didn't have enough money to buy these with saved money, so how did they get this equipment?

5. Answer both parts of this question. What happened to demand after the war? Why did production stay high?

6. Summarize in your own words how this drop in demand and high production affected the farmers financially.

7. Who was a downward slide in the economy likely to hit first?

8. Summarize in your own words how things changed in the 1920s for industrial workers.

9. Answer both parts of this question. Between 1923 and 1929, how much did workers wages raise in comparison to corporate profits? What does this point to?

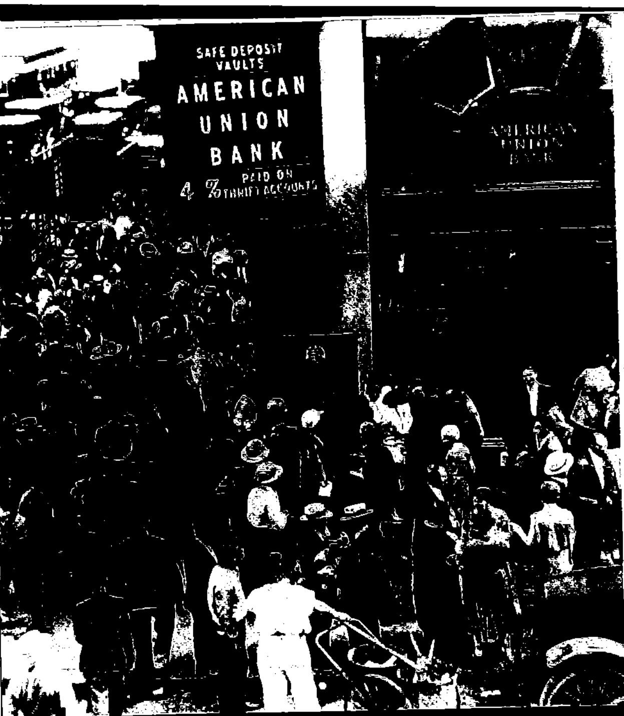
10. In 1929, what did the richest 1 percent have in common with the poorest 42 percent?

11. More than 60 percent of all American families had yearly incomes of less than $2,000 per year but 24,000 of the countries families enjoyed annual incomes of over $100,000 per year. But these rich people don't buy 50 times more food, radios, cars, etc. In your own words, summarize why this is not good for a healthy economy.

12. Answer both parts of this question. How did Americans buy goods like radios and cars in the 1920s if they didn't have the money saved up? Describe how installment plans work.

13. What is stock speculation?

14. Why is October 29, 1929 considered "Black Tuesday"?



6.1 **During the Roaring Twenties, many Americans enjoyed what seemed like limitless prosperity. Then, in October 1929, the mighty bull market crashed. As production fell and unemployment rose, the economy lurched into a period of dramatic decline.**

When depositors went to the Union Bank in New York City, in 1931, they could not withdraw their money. How do you think the American public reacted to bank failures?

Interactive Flipped Video

>> Objectives

Identify how weaknesses in the economy in the 1920s caused the Great Depression.

Explain why the stock market crashed in 1929 and the crash's effect on the economy.

Describe how the Great Depression deepened in the United States and spread overseas.

Identify the causes of the Great Depression and discuss how historians' differ about them.

>> Key Terms

Herbert Hoover
speculation
Black Tuesday
Great Depression
Hawley-Smoot Tariff
business cycle

Causes of the Depression

Hidden Economic Problems in the Roaring Twenties

At first, some Americans saw this contraction as a regular contraction of the nation's **business cycle**, which explains the periodic growth and contraction of the economy. It most certainly was not regular. Production, employment, and income will normally expand, contract, and expand again over time in a cyclical way. However, a number of factors combined in the 1920s to turn the normal, cyclical expansions and contractions of the nation's economy into an economic collapse in the 1930s. Millions of Americans suffered hardships and despair as a result.

For most of the 1920s, however, Republican leaders exuded confidence about both their party and their country. The Roaring Twenties had been a Republican decade. In 1920, Americans sent Warren G. Harding to the White House, and four years after that, they sent Calvin Coolidge. Neither election had been close.

Once in office, both Presidents watched the country grow increasingly prosperous. As the decade passed, consumption went up, the gross national product went up, and the stock market went up.

No matter what index an economist chose to consult, the conclusion was always the same: Times were good in America—and they were getting better. Republicans took credit for the bullish economy, and most Americans heartily agreed.

Hoover Sweeps to Victory When the Republicans met at their 1928 nominating convention, they chose **Herbert Hoover**—an accomplished public servant—to run for the White House. Born in Iowa, Hoover was orphaned as a child. But he overcame this personal tragedy and eventually graduated from Stanford University with a degree in geology. He became a mining engineer and worked all over the world. By 1914, after amassing a vast fortune, he retired from engineering and devoted himself to public service.

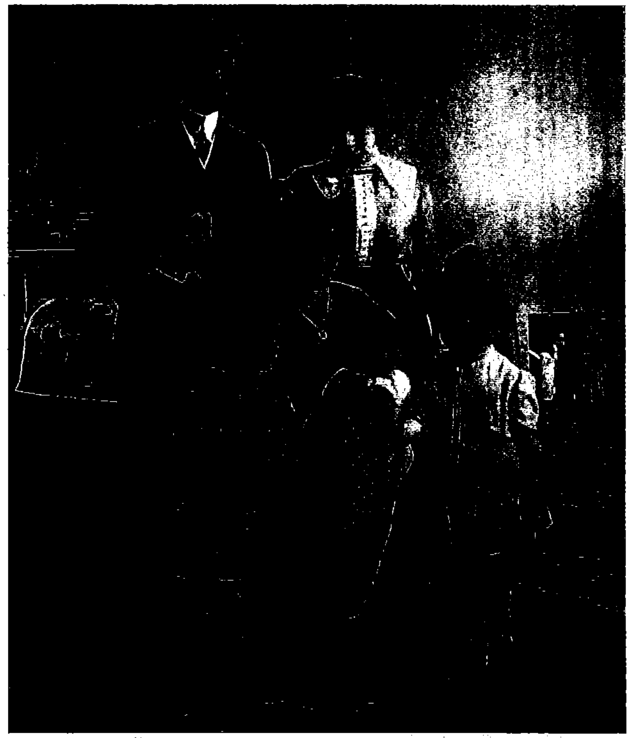
Herbert Hoover came to the attention of Americans during World War I, first as the brilliant coordinator of the Belgium relief program and then as head of the Food Administration. During the Harding and Coolidge administrations, Hoover served as Secretary of Commerce. His philosophy was simple but effective.

He stressed the importance of competition, but he also believed in voluntary cooperation between labor and management. American greatness showed itself, Hoover maintained, when owners, workers, and government officials converged on common goals.

With a solid record of accomplishments behind him and seemingly endless prosperity in front of him, Hoover was a formidable presidential candidate in 1928. While his campaign ads noted how Republicans had "put the proverbial 'chicken in every pot,'" Hoover spoke glowingly of ending poverty in America:

> By adherence to the principles of decentralized self-government, ordered liberty, equal opportunity, and freedom to the individual, our American experiment in human welfare has yielded a degree of well-being unparalleled in all the world. It has come nearer to the abolition of poverty, to the abolition of fear of want, than humanity has ever reached before.
>
> —Herbert Hoover, campaign speech, 1928

Hoover's contest with Democratic nominee Alfred E. Smith of New York was, in the end, no contest at all. Americans voted overwhelmingly for Hoover, prosperity, and the continuation of Republican government. When the new President took office in March 1929, America was awash in a sea of confidence. Few imagined that



>> An affluent middle-class family poses for a portrait in 1924. Many families bought their first automobile and radio during the 1920s as mass-produced consumer products became more affordable.

>> During his 1928 campaign, Herbert Hoover emphasized his belief that competition was vital to ensure robust economic growth.

an economic disaster lay just seven months in the future.

But even as Hoover delivered his victory speeches, economic troubles were beginning to worry some Americans. The prosperity of the 1920s was not as deep or as sturdy as Hoover claimed. Throughout the U.S. economy, there were troubling signs.

>> Mechanized farm equipment became more common during the 1920s, but many farmers still used basic equipment such as this horse-drawn plow.

Farmers Face Challenges After World War I American farmers faced difficult times during the 1920s. Farmers made up one fourth of the American workforce during the decade.

To meet the unprecedented crop demands created by World War I, they had increased harvest yields and bought more land to put under the plow. They also bought costly tractors and other mechanized farm equipment to help them meet demand. Farmers amassed huge debts doing this, and the additional mortgage payments followed them into the 1920s.

After the war, the demand for American crops fell sharply. Despite this drop, postwar production remained high because of increasingly mechanized farm equipment and more intensive farming methods. Farms were getting bigger and yielding bumper crops at harvest. However, farmers were failing to sell off their huge crop surpluses and to pay the debts they owed banks and other institutions.

The result was a rural depression that affected millions of Americans. Hard-pressed to pay their debts, forced to sell their goods in a glutted and competitive world market, and confronted by several natural disasters, farmers did not share in the boom times of the 1920s. They did not have the cash to buy the new consumer goods produced by American industries.

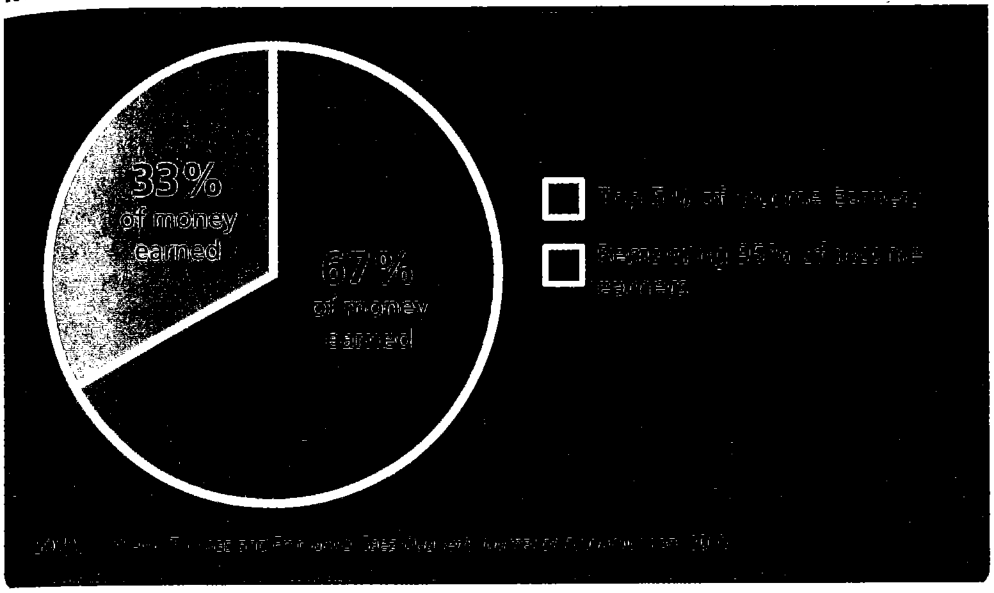
They lived largely on credit from month to month, often teetering on the brink of financial ruin. Any downward slide in the economy was likely to hit America's struggling farmers first and hardest.

>> The gap between rich and poor widened in the 1920s; the wealthy built large homes and began to fill them with lavish furnishings.

A Significant Gap Between the Rich and the Poor Unlike farmers, industrial workers participated in the great national success story. During the 1920s, their wages rose steadily, as did their disposable income. Many purchased Model T Fords along with a variety of other consumer products. Though they were certainly not wealthy, industrial laborers were in a better financial position than their fathers had been a generation before.

But the problem was that while wages rose gradually, worker productivity increased astronomically. Between 1923 and 1929, output per person-hour jumped 32 percent, but workers' wages inched up only 8 percent. During that same period, corporate profits from worker output skyrocketed 65 percent. All these figures

Income Distribution, 1929



>> **Analyze Graphs** Based on the information in the pie chart, what share of total income earned in 1929 did the top 5 percent of income earners account for?

pointed to the fact that during the 1920s, the rich became much, much richer, while industrial workers simply became less poor.

In few periods of the country's history have so small a number of rich Americans dominated such a large percentage of the country's total wealth. In 1929, for example, the wealthiest 1 percent of the population earned about the same amount of money as the bottom 42 percent.

Uneven Distribution of Wealth Creates Problems

This uneven distribution of the nation's wealth created economic problems. More than 60 percent of all American families had yearly incomes of less than $2,000 per year. In contrast, 24,000 of the country's wealthiest families enjoyed annual incomes of more than $100,000, which was 50 times more than what most families were earning. But these wealthy families did not eat 50 times more food than lower-income families. The wealthiest households did not purchase 50 times more automobiles or radios or ovens. The rich undoubtedly spent a lot on consumer products. The problem was that the wealthiest few could not buy enough to keep the economy booming.

A healthy economy needs more people to buy more products, which in turn creates even more wealth. In this way, a healthy economy avoids underconsumption that can limit economic growth. The uneven distribution of wealth in the 1920s pointed to an uncertain future for the American economy.

From the overproduction of the struggling farmer to the underconsumption of the lower-income industrial worker, deep-seated problems created economic instability. Too many Americans did not have enough money to buy what they needed or wanted.

Americans Rely on Credit For a time, the expansion of credit partially hid this problem. Americans bought automobiles, appliances, radios, and other goods on credit. Using the installment plan, they paid a small percentage down and the rest over a period of months or years. By the end of the decade, 80 percent of radios and 60 percent of cars were purchased on installment credit. Americans even bought stock on credit, making such stock purchases on margin. Every year, Americans accumulated more debt. In the past, they had feared debt and put off buying goods until they had all of the cash to pay for those items.

Easy credit changed this behavior during the 1920s. But the growing credit burden could mask the problem of Americans living beyond their means for only so long before the economy imploded.

? RECALL What problem did farmers face following World War I?

>> Dazed investors gathered outside the New York Stock Exchange as the stock market crashed on October 29, 1929.

>> Despair gripped many Americans following the stock market crash. Some people who were hardest hit by the crash had to sell their belongings just to pay their bills.

The Stock Market Hits Bottom

By 1929, some economists were observing that soaring stock prices were based on little more than confidence. The prices had no basis in reality. Although other experts disagreed, it became clear that too much money was being poured into stock **speculation**, as investors gambled (often with money they did not even have) on high-risk stocks in hopes of turning a quick profit. If the market's upward climb suddenly reversed course, many investors would face economic devastation.

On September 3, 1929, the stock market began to sputter and fall. Prices peaked and then slid downward in an uneven way. At the end of October, however, the slide gave way to a free fall.

After the Dow Jones average dropped 21 points in one hour on October 23, many investors concluded that the boom was over. They had lost confidence—the very thing that had kept the market up for so long.

The next day, October 24, came to be known as Black Thursday. With confidence in the stock market failing, nervous investors started to sell. Stock in General Electric that once sold at $400 a share plunged to $283. Across the United States, investors raced to pull their money out of the stock market. On October 29, **Black Tuesday**, the bottom fell out. More than 16 million shares were sold as the stock market collapsed in the Great Crash. Billions of dollars were lost. Whole fortunes were wiped out in hours. Many speculators who had bought stock on margin lost everything they had. President Hoover tried to soothe Americans by insisting that the "business of the country is on a sound and prosperous basis." But by November 13, the Dow Jones average had dropped like a brick from its September high of 381 to 198.7. The Great Crash represented a rare extreme in the nation's business cycle and a turning point for the American economy.

? IDENTIFY What is stock speculation?

The Great Depression Begins

The stock market crash marked the beginning of the **Great Depression**, a period lasting from 1929 to 1941 in which the economy faltered and unemployment soared. Though it did not start the depression by itself, the crash sparked a chain of events that quickened the collapse of the U.S. economy.

Bank Failures Occur Across the Nation One of the first institutions to feel the effects of the stock market