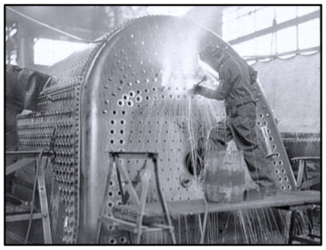
Unit: The Roaring '20s & Great Depression
Lesson: Causes of the Great Depression

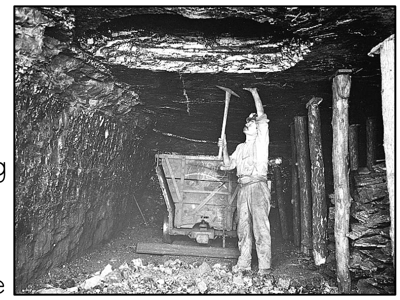
Name ____________________________

Even though America prospered during the 1920s, several conditions were present that would lead to the worst economic disaster in American history. The **Stock Market Crash** of October 1929 suddenly ended the Roaring '20s and began the **Great Depression** (1929-1940), but serious problems had been threatening the American economy throughout the 1920s despite the "roaring life" many Americans had enjoyed.



Construction of a railroad engine

Many industries began to struggle during the 1920s. Railroad, steel, and textile industries had a decrease in profits. As the automobile industry boomed, the railroad industry lost business. Other industries, such as mining and lumbering, had been in high demand during World War I. However, after the war, the need for coal decreased as other forms of energy emerged. Hydroelectric power and natural gas became more popular. Coal miners lost their jobs because other forms of energy were being used instead of coal. By the early 1930s, less than half of America's energy came from coal. Even the booming industries of the 1920s were not safe. The housing industry which had been at an all time high, began to slow down. This meant jobs in related industries decreased, too. Less lumber was needed to build new homes, so those who worked in lumbering saw less profits. Some industries, though, increased production. However, by the end of the 1920s, many of these businesses had a **surplus** of products because **consumer** spending had decreased.



A coal miner working in 1923.

Lumber factory in Michigan

Agriculture may have suffered the worst, though. During WWI, demand for crops such as wheat and corn soared, which caused the prices to increase. Farmers made a large profit. They began to plant more crops and took out loans for more supplies and better equipment. After the war, though, the demand dropped and crop prices fell by at least 40 percent. Farmers planted more, hoping an increase in production would result in selling more crops. However, when there are more goods than consumers are willing to buy, the price drops. The annual farm income decreased from $10 billion in 1919 to just $4 by 1921. Farmers could not pay their debts back to the banks when their profits decreased. Often the banks would **foreclose** on the farmer's property and seize it to settle the debt. Sometimes banks would hold auctions to recover some of the money lost on these bad loans. Many small banks in rural areas began to fail as farmers could not pay their loans. Congress tried to help the farmers by passing the McNary-Haugen Bill. The government promised to buy the surplus crops at guaranteed prices and sell them on the world market to other countries. This would ensure the farmers would receive payment for their extra crops. However, President Calvin Coolidge vetoed this bill twice.

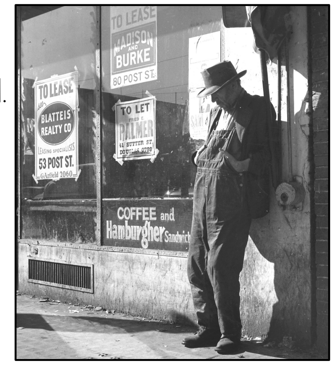
A farm growing tobacco.

Radios became popular in the '20s.

Another cause of the Great Depression was the uneven distribution of income. During the 1920s, the income of the average American increased by 9 percent. However, the income of the wealthiest 1 percent of the population increased 75 percent! The rich got richer, while the poor got poorer. The minimum income needed for a decent **standard of living** during this time period was $2,500 per year. More than 70 percent of families earned less than this. Even if a family earned $5,000 per year, they still struggled to buy necessities. Most Americans purchased one new outfit a year. Less than half of the homes in most cities had electric lights or a furnace for heat. One out of ten homes in the cities had a refrigerator. Most Americans could not purchase the new goods and services produced in the 1920s. As a result, businesses and banks made **credit** easily available. Businesses and banks wanted Americans to spend

An automobile from 1924

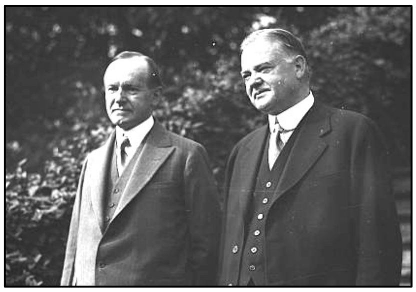
money. Consumers would purchase an item without having cash, and they would make payments to repay the money borrowed, plus **interest** fees. As Americans purchased goods and services using credit, their consumer debt increased.



An unemployed man leans against an empty store.

By the late 1920s, many industries began to struggle, so workers' **wages** remained stagnant or even decreased. At the same time, the price of goods and services increased. Many Americans no longer had extra money to spend. Many also struggled to pay back their consumer debt. As result, consumer spending decreased and businesses were left with a surplus of goods, which brought the country closer to economic disaster.

Even though consumers were spending and earning less and businesses saw fewer profits, the election of 1928 encouraged Americans about the outlook of the economy. Republican Herbert Hoover ran against Democrat Alfred E. Smith. Smith was an experienced political, serving four terms of the governor of New York. Hoover's only political experience was being the Secretary of Commerce under former President Warren G. Harding and current President Coolidge. Despite having less experience, Hoover gained voters by referring to the economic prosperity that occurred under the Republican administration during the 1920s. Many believed Hoover would help keep the economy strong, so he easily won the election.


Calvin Coolidge (left) and Herbert Hoover

By 1929, some economists warned about the weaknesses in the economy, but most Americans still had confidence in the country's economy. The Dow Jones Industrial Average was strong, and **stock** prices had rose steadily throughout the 1920s. Those who could afford to invest in the stock market did. By 1929, 3 percent of the nation's population owned shares of stocks. Most of these investors were already wealthy, but there were some Americans who had hoped to strike it rich. They bought stocks based on the speculation the value would increase, without thinking about the risk that it could decrease instead. Some people used all of their savings to buy the stocks. Others could not afford to, so they paid a down payment and borrowed the rest. They had hoped to sell for a higher price than what they bought it. This way they could repay their debt and still make a profit. The government did not regulate the stock market, and easy credit was available to investors. With constant buying and selling, the stock market soared. In 1925, the value of the Stock Market Exchange was $27 billion, but by September 1929, it had exploded to $87 billion. On average, someone who bought a stock in 1925 had tripled their money by 1929. Many companies' stocks rose in price, making it more expensive to buy. Some people continued to pay these high prices, because they hoped to make even more money. Even though the prices of the stocks were increasing, the worth of the companies was not. Yet many investors continued to ignore the risk.


The New York Stock Exchange


A man trades shares before the Stock Market Crash of 1929.

Stock prices began to fall in September 1929. Some investors began to worry, and they sold their stocks to reclaim their cash and pay off any debt. On October 24, the stock market plunged even lower, and more investors sold their stocks. On "Black Thursday" almost 13 million stocks were sold. As more investors sold their stocks, the prices plummeted, making it harder to make a profit. On October 29, now known as "Black Tuesday", the stock market crashed. On that day, 16 million stocks were sold, but there were millions more left unsold. People who used credit to buy their stocks were left with high debts and worthless stocks. Many lost their savings. By the following month, investors had lost $30 billion. The Stock Market continued to lose value, and in 1932, it was worth only $15 billion.

Even though there were many causes of the Great Depression, the stock market crash marked the beginning of it. A depression most likely would have happened even if the market had not crashed, and it certainly made the depression much worse. Although

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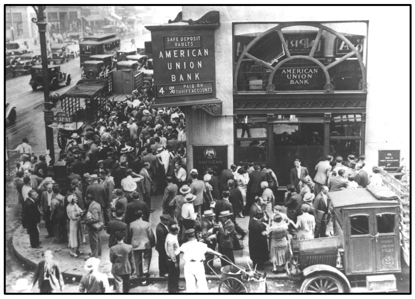

A line of people waiting to withdraw their money outside of a closed bank in April 1932.

90 percent of Americans did not invest in the Stock Market, they still felt the severe consequences of the stock market crash. Just like the investors who had panicked and tried to get their money out of the stock market, people panicked and tried to get their money out of the banks. A rush of people tried to withdraw their money in a short period of time. During this "run on the banks," some people couldn't withdraw their money because the banks had invested it in the stock market, and the banks could not sell their stocks to reclaim the money. At this time, the government did not insure bank accounts like they do today, so when 11,000 of the country's 25,000 banks failed, millions of people lost all the money they had in the bank. Their entire life savings was gone.

Men waiting in a breadline for food in 1932.

Banks weren't the only businesses affected by the Great Depression. Almost 90,000 businesses went bankrupt, including those that were once prosperous such as automobile companies. The country's **gross domestic product** (GDP) went from $104 billion in 1929, to just $59 billion by 1932. As companies went out of business, millions of workers were laid off. In 1929, 1.5 million people were unemployed. In 1932, it had risen to over 20 percent (15 million people)! Those who were fortunate to keep their jobs saw pay cuts. Many Americans could no longer afford basic necessities, and soup kitchens and bread lines became more common in the cities. The number of homeless people increased because they could no longer afford their mortgages, and their homes were foreclosed. Farmers, who had been struggling throughout the decade, now could not even afford to harvest their crops, so many crops were left to rot in the fields, while many starved.

The Great Depression did not only affect America. Countries around the world were impacted, which drove America's economy further down. Many countries were dependent on each other, and international trade was important. After WWI, the US government loaned billions of dollars in aid to its allies to help them recover. With American consumers spending less, imported goods from other countries weren't selling either. For example, European companies saw a decrease in profits. Foreign countries began to struggle economically, and they could not pay their loans to the US. With Americans buying fewer imports, it made it more difficult for American farmers and businesses to export goods to other countries to be sold. Also, not only did investors withdraw their money from the American market, they withdrew their money from the European market. This also caused the European market to decline.

In 1930, the American government thought that by raising tariffs on imports, consumers would buy more American-made goods, so the Smoot-Hawley Tariff Act was passed. This did not work, and it caused world trade to drop, which caused foreign businesses to go out of business, which resulted in job loss for citizens of other countries. Unemployment rates increased around the globe. Austria's largest bank failed in 1931. Germany struggled, because it also had to reparations for WWI, which was already difficult to pay. Asian farmers and businesses saw decreased profits as their exports were cut in half. Latin Americans were affected, because the demand for sugar, beef, and copper dropped, which caused the prices and profits to drop. Many countries decided to raise tariffs on their imports, too, which made the situation worse. By 1933, world trade decreased by 40 percent. Americans and people around the world would face hardship for years to come.