

Chapter 8 Study Guide

Section 1: Causes of the Great Depression

The Roaring Twenties were a Republican decade. Beginning in 1920, Republican Presidents led the nation and took credit for the good economic times. In 1928, the country continued to support the Republicans by electing **Herbert Hoover** President. However, the nation's prosperity was not as deep or as sturdy as it appeared.

American farmers faced difficult times in the 1920s. They had borrowed money to buy land and machinery to increase the harvest yields during World War I. Although the demand for American crops fell after the war, farmers were still producing large harvests. Cheap food flooded the markets, lowering farmers' profits and making debt repayment hard.

Industrial workers, whose wages rose steadily, did better than farmers. The owners of companies did even better. They became very rich. In fact, in 1929, the wealthiest 0.1 percent of the population earned about the same amount of money as the bottom 42 percent. However, the people with great wealth could not buy enough goods to keep the economy strong. Still, many workers took advantage of easy credit to buy products. This disguised the problem and helped the economy to grow.

By 1929, it became clear that too much money was being poured into stock **speculation**. Investors often borrowed money to buy stocks, then sold them to turn a quick profit. Frantic buying and selling inflated the prices of stocks to unrealistic levels. Finally, all the problems began to converge. A sharp drop in stock prices led to panicked selling. Stock prices bottomed out on **Black Tuesday**, October 29, 1929, wiping out whole fortunes in hours.

The stock market crash marked the beginning of the **Great Depression**, a period lasting from 1929 to 1941 in which the U.S. economy faltered and unemployment soared. Thousands of banks closed and many businesses failed. The government tried to boost the sale of American goods by passing the **Hawley-Smoot Tariff**, which placed high taxes on foreign goods. Foreign governments responded by placing tariffs on American goods. The result was closed markets and unsold goods, which destroyed international trade. Economists still disagree on what was the most important factor leading to the Great Depression, which eventually affected the whole world.

Section 2: Americans Face Hard Times

The Great Depression deeply affected Americans. Some lost everything they had while others struggled simply to survive. In the cities, Americans faced rampant unemployment. Between 1921 and 1929, annual average unemployment rates never rose above 3.7 percent. By 1933, almost 25 percent of workers were without jobs. As unemployed families ran out of money, their hardship deepened. Drastic necessity forced them to sell their belongings. Sometimes a family's only food came from a **bread line**, where people lined up for handouts from charities or public agencies. Many people were evicted from

their homes. With no place else to go, they sometimes grouped together in **Hoovervilles**—makeshift shantytowns of tents and shacks built on public land or vacant lots.

Conditions were bad in rural America, too. Before the depression, farmers had already been struggling. During the depression, their problems worsened. Crop prices dropped lower. Between 1930 and 1934, nearly one million farmers lost their homes for failure to pay their mortgages. Some farmers stayed on the land as **tenant farmers**, working for bigger landowners rather than for themselves. A severe drought and overfarming on the Great Plains turned the soil to dust, making farming impossible and creating huge dust storms. High plains regions in Texas, Oklahoma, Kansas, New Mexico, and Colorado became known as the **Dust Bowl**. Many farmers left the area and moved to California to look for work. Because some of these people were from Oklahoma, Dust Bowl refugees became known as **Okies**.

Minorities were hit the hardest by the depression. African American sharecroppers were thrown off the land they had farmed and migrated north. In 1932, unemployment among African Americans was nearly double the national rate. In the Southwest, many white Americans urged **repatriation** of Mexican Americans. Repatriation involved government efforts to send Mexican immigrants and their American children back to Mexico.

For many Americans, the depression was a time of great hopelessness and despair.

Section 3: Hoover's Response Fails

From big cities to small towns, the Great Depression spread misery across America. As the crisis deepened, Herbert Hoover struggled to respond to the nation's problems.

At first, Hoover felt that government should not interfere with what he thought was the natural downswing of the business cycle. Soon, however, Hoover tried a different approach, called volunteerism. Hoover asked business leaders not to cut prices and wages. He called for the government to simultaneously reduce taxes, lower interest rates, and create public-works programs. He also asked the wealthy to give to the poor through charities. Finally, Hoover called for a policy of **localism**. This policy asked state and local governments to provide more jobs and relief measures. However, businesses cut wages and laid off workers, towns and states did not have the resources to respond to the crisis, and charities ran low on money. The crisis demanded federal action.

Next, the President decided to adopt a policy of **trickle-down economics**. The idea was that the government would provide loans to bankers so they in turn could lend money to businesses. Businesses would then hire workers, leading to increased production and consumption, and the end of the depression. At Hoover's urging, Congress created the **Reconstruction Finance Corporation (RFC)** to provide loans to businesses. However, businesses that did receive loans did not always use them to hire workers. Hoover did have one success in the building of **Hoover Dam**. Construction of the dam on the Colorado River brought much-needed employment to the Southwest in the early 1930s.

Americans became increasingly unhappy with Hoover's handling of the depression. A group of almost twenty thousand unemployed World War I veterans known as the **Bonus Army** marched in protest and set up camps in Washington, D.C. They wanted early payment of a bonus promised them. Congress agreed, but Hoover vetoed the plan. When riots broke out in July 1932, Hoover called in the military. General **Douglas MacArthur** led army troops against the veterans. Many of the veterans were hurt, a situation that angered many Americans. Hoover had little hope of reelection.