

# THE GREAT DEPRESSION

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Honors US History

## The End of the Roaring 20's

- ▣ The "superficial" economy shows its true colors!!!
- ▣ The massive amount of credit inflated personal debt for American families
- ▣ What problem does lending create for banks?
- ▣ Post-WWI economic effects
  - Dramatic drop in demand
  - Lag in railroad, steel, coal industries, new homes
  - Agriculture takes the biggest hit

## Economic Cycle for Farmers



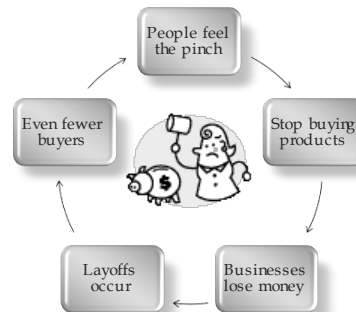
## Struggles for Farmers

- ▣ McNary-Haugen Bill
  - Attempt to set up price-supports which arranges for the government to buy surplus crops at set prices and sell them on the world market at the going rate
  - Bill was vetoed by Coolidge twice
- ▣ Why would Coolidge veto this bill?

## Consumerism takes a plunge


- ▣ Wages did not grow in the 20's at the same rate as production...many people could not buy what they made at work...they were not participating in the economy (overproduction and underconsumption)
- ▣ Simply put, when people find that can't pay their necessities (e.g. rent, food, etc.) and bills (e.g. pay their installments on credit purchases) they tend to cut discretionary spending (spending on luxury items)
- ▣ When people don't spend, business loses! When business loses, people lose jobs
- ▣ Check the chart...

## Recession Cycle



## Stock Market

- ❑ A stock is a share of ownership in a company that can be bought and sold
- ❑ Why would you buy a stock?
- ❑ Under what circumstances would you want to sell a stock?
- ❑ Why are stocks good for companies?
- ❑ When stock prices rise that is a bull market
- ❑ When stock prices fall that is a bear market



## Risk & Reward

Speculation - get in, get out...make a quick buck


- Many people gambled on stocks without recognition of the possibility that they could lose
- ❑ Marginal Buying - buying stocks on credit...
  - What problems could result from marginal buying?
- ❑ These practices were rampant due to a lack of government regulation...remember things were going well...

## Fear Permeates the Market

The stock market was like a bubble that was destined to burst


- Prices reach an apex and then taper off or collapse
- Think about the housing market of today...prices kept rising until they peaked and then plunged
- ❑ Investors lose confidence in the worth of their stock and its ability to grow
- ❑ Sell-offs occur
  - Widespread selling of stocks sending prices lower and lower

## Black Tuesday October 29th, 1929




## Before & After

Stock Market before and after Black Tuesday




## Results of the Crash

People try to withdraw \$\$\$ from banks - called a "bank run"



Banks invested in stocks and suffered from defaults on cars and mortgages - don't have the \$\$\$ to give



Banks failed!

What happens to financial markets when banks fail?

## How did Washington React?

### Hawley-Smoot Tariff Act, 1930

- Established the highest ever *protective tariffs* - this is a tax on imports used to level the playing field for American Businesses.
- The tariff was a failure. It curbed international trade.

## Four Factors that Caused the Great Depression

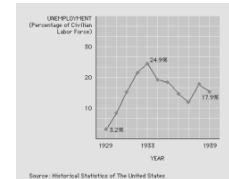
- Tariffs and war debt policy cut down the foreign markets for American goods
- A crisis in the farm sector
- The availability of easy credit
- An unequal distribution of income

## Charting the Depression



## Effects of the Depression

- Unemployment rate of about 25%
  - Our current unemployment rate is 5.5%
- Many men and families accustomed to being self sufficient relied on...
  - Bread lines
  - Soup kitchens
  - Direct relief (municipal level)
  - Hobo'ing
- Many lived in shantytowns which were later called "Hoovervilles"



## Dust Bowl

- Farmers suffered a loss of land due in part to...
  - Failure to rotate crops
  - Drought
- Dust Storms swept away land and hurt agriculture
- Many people did not survive, and if they did they lost their land
- Contributed to urbanization



## Crop Rotation

<b>Year One</b> 1 = Field number	1 Peas or Beans	2 Winter wheat	3 Potatoes
4 Winter wheat or Barley	5 Sugar beet	6 Grass (Two year ley i.e. grass grown as a crop)	7 Grass
<b>Year Two</b> All rotate by one field	1 Grass	2 Peas or Beans	3 Winter wheat
4 Potatoes	5 Winter wheat or Barley	6 Sugar beet	7 Grass

## Hoover's Response

- ☐ Let the market correct itself!
- ☐ Remember Laissez Faire...
- ☐ Ranked **#34** out of 43 according to C-Span's 2009 Historians Poll...ouch...just two ahead of "W"



## Herbert Hoover

- ☐ Wanted government to play a limited or nonexistent role in the economy
- ☐ Hoover thought that the government was not the proper engine to fuel economic recover
- ☐ Hoover erred on the side of caution...He wanted to get businesses to cooperate and solve the problem on their own!

## Herbert Hoover

- ☐ Wasn't working!
- ☐ By 1931, as the economy kept sliding, Hoover was faced with passing federal legislation to aid the economy
- ☐ Focused on the Banking Industry
  - Federal Home Loan Bank Act
  - Reconstruction Finance Corporation (RFC)
- ☐ His theory was called "trickle-down" economics
  - Helping the business will result in the creation of jobs in the private sector

## Opposing Solutions to an Ailing Economy

### TRICKLE-DOWN ECONOMICS

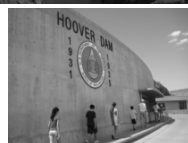
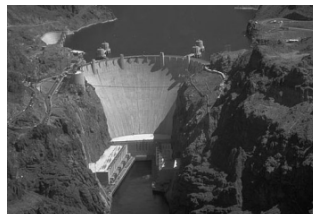
- ☐ Coined by Will Rogers
- ☐ Also called supply-side
- ☐ Stimulate the economy by investing in and cutting taxes for business (e.g. capital gains)
  - Businesses will use extra capital to expand and create jobs
  - Deregulatory...

### KEYNESIAN ECONOMICS

- ☐ Theory of John Maynard Keynes
  - British Economist
- ☐ This is FDR's theory
- ☐ Also called demand-side
- ☐ Stimulate the economy by increasing government spending and cutting taxes
  - Federal programs will create jobs
  - Going into debt is worth it if it fixes the economy

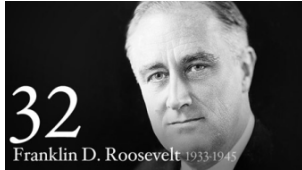
## Hoover Dam - He's not all bad...

- ☐ In late 1929, Hoover was able to commission the building of what was then called Boulder Dam and now called Hoover Dam
- ☐ This infrastructure project did create jobs, and left a lasting mark



## Time for a Change

- ☐ In 1932, Americans were looking for new leadership.
- ☐ Enter Franklin Delano Roosevelt
  - Governor of New York
  - Cousin of Teddy
  - Proponent of “active” government to fix the economy
- ☐ Ranked #3 out of 43 in C-Span’s 2009 Historians Poll



“Change is Gonna Come”

**The New Deal**

## Evidence-based Journal and Discussion

- ☐ Describe the depths of the depression using evidence from the reading
- ☐ Create a T-chart to map evidence that supports both sides of the Essential Question.
- ☐ Write a Mel-Con which argues your current stance on the EQ:

**Did the New Deal prolong the Great Depression?**