

Chapter Introduction

This chapter will cover the causes of the Great Depression, its impact on Americans, and Herbert Hoover's unsuccessful attempts to deal with the crisis.

- **Section 1:** Causes of the Depression
- **Section 2:** Americans Face Hard Times
- **Section 3:** Hoover's Response Fails



Objectives

- Discuss the weaknesses in the economy of the 1920s.
- Explain how the stock market crash contributed to the coming of the Great Depression.
- Describe how the Great Depression spread overseas.



Terms and People

- **Herbert Hoover** – former Secretary of Commerce and Republican candidate for President in 1928
- **speculation** – when investors gamble that stock prices will rise
- **Black Tuesday** – October 24, 1929, the day the stock market crashed
- **business cycle** – periodic expansion and contraction of the economy

Terms and People (continued)

- **Great Depression** – The collapse of the United States and world economies beginning in 1929
- **Hawley-Smoot Tariff** – high protective tariff passed in June 1930 that contributed to a worldwide depression

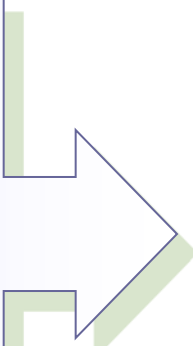


How did the prosperity of the 1920s give way to the Great Depression?

During the 1920s, many Americans enjoyed what seemed like an endless era of prosperity. But in 1929, the stock market crashed. **Production fell, unemployment rose, and the economy went into a period of dramatic decline.**

Years after the Great Depression began, periodic contraction was seen as part of the business cycle.

In the 1928 presidential race, the Republican Party was confident.

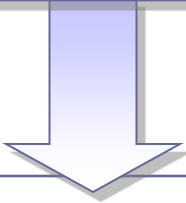


The Republicans took credit for the strong economy.


Their presidential candidate was **Herbert Hoover**.

He believed in voluntary cooperation between business and labor.

Despite Hoover's confidence, some saw signs of weakness in the economy.



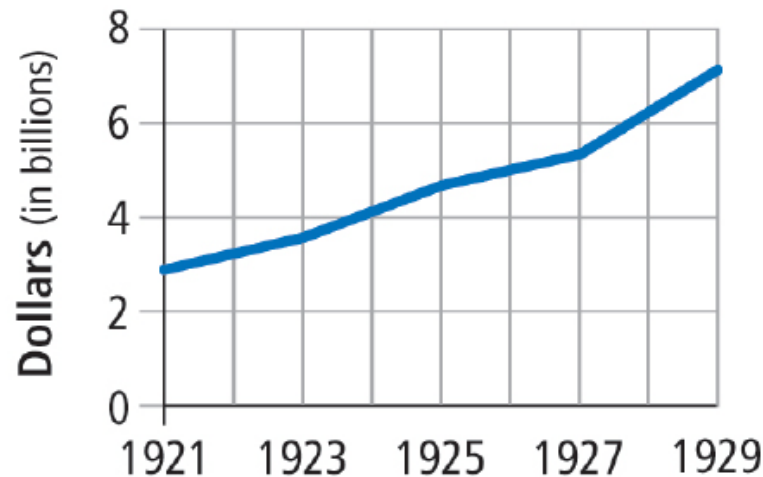
The agricultural sector was in trouble. Rural farmers produced huge surpluses of food that depressed prices.



Farmers could not afford to buy goods or repay their loans.

Easy credit and installment buying lead people to purchase goods they can't pay for.

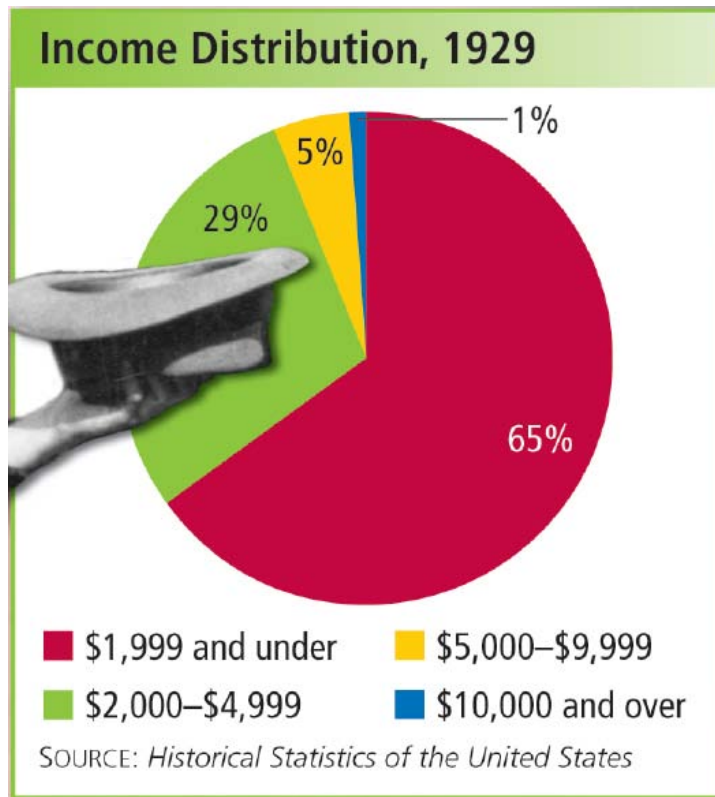
Consumer Debt, 1921–1929



SOURCE: *Historical Statistics of the United States*

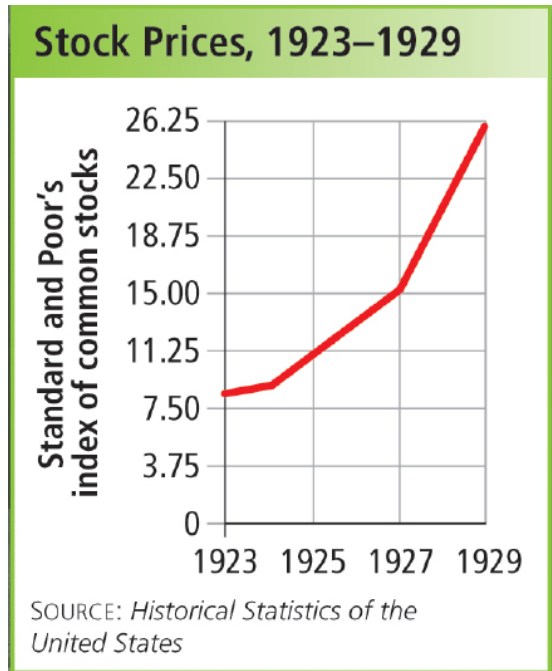
By 1929, Americans racked up more than \$6 billion in personal debt — more than double the 1921 level.

Rising wages masked an uneven distribution of wealth.



While factory workers' wages rose 8%, factory output increased by 32%. As a result, **worker incomes rose modestly, while rich investor incomes skyrocketed.**

Until September 1929, the stock market continued to rise.



Many people borrowed money to buy stock, assuming prices would continue to go up.

Some economists feared that stocks were over-priced.

On October 29th, the stock market went into a free fall as investors tried to sell at any price.

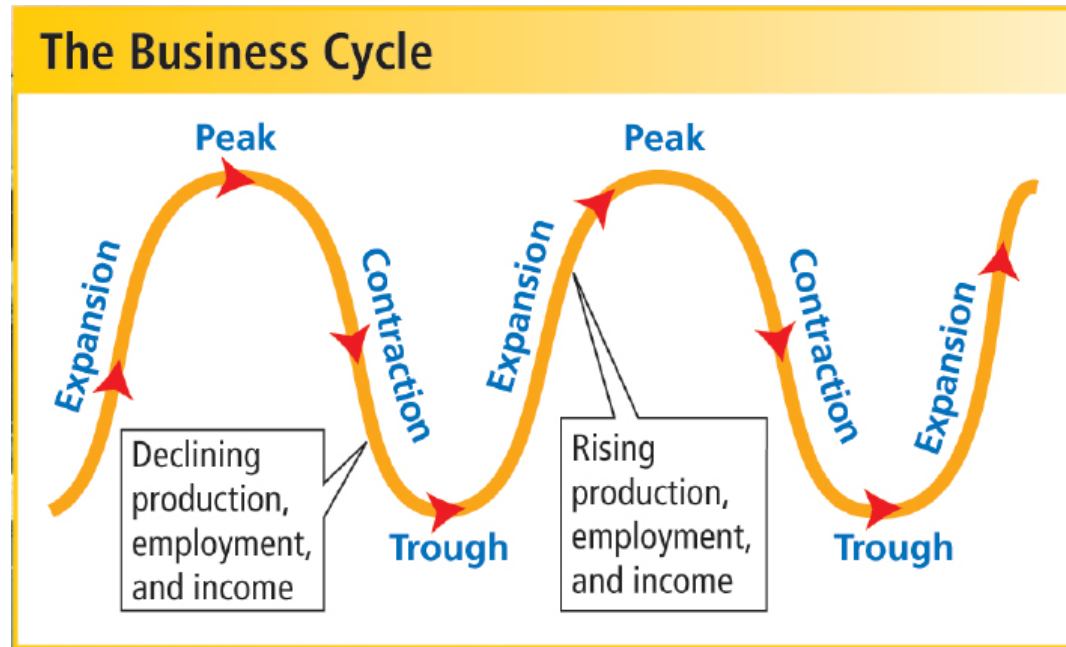
16 million shares were sold
on "Black Tuesday."

Billions of dollars were lost
in a few hours.

Many who bought stocks
on margin were wiped out.

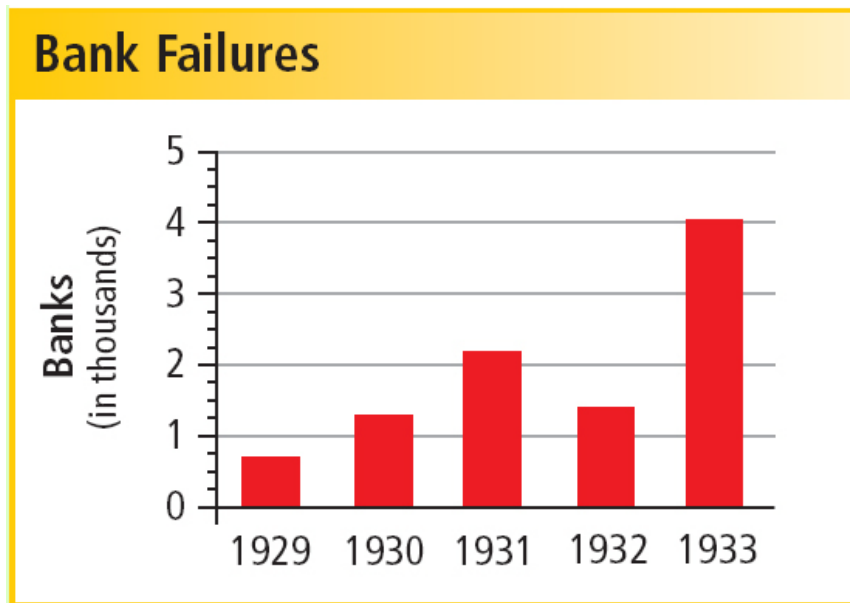
The Great Crash was a hallmark of the nation's **business cycle**. The economy periodically grows and then contracts.

- In growth periods, workers are hired, wages rise, and demand for products increases.
- In contraction periods, workers are fired, wages drop, and demand for products falls.

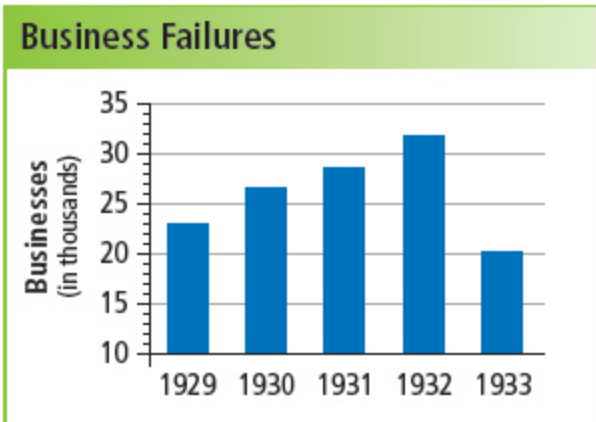


The stock market crash didn't start the Great Depression by itself. Instead, it quickened the collapse of the U.S. economy.

The banking system feels the effects of the crash first. People fear that their money will be lost so they run to the bank and attempt to withdraw their funds.



But banks don't have enough of their money on hand as cash. These bank runs cause banks to fail.



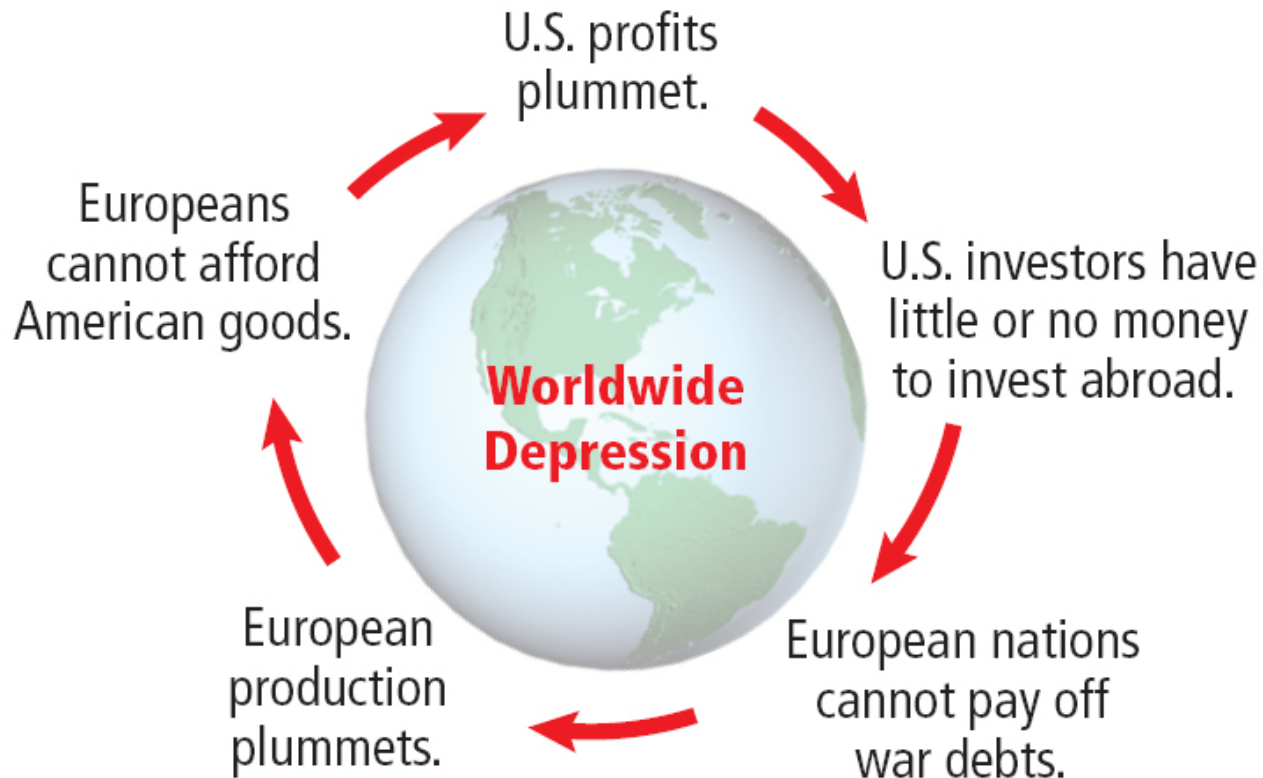
- Factories closed, causing worker layoffs.
- This lowered demand for goods.
- By 1933, the unemployment rate reached 25%.

Congress passed the **Hawley-Smoot Tariff** to protect American manufacturers from foreign competition.

The strategy was a mistake. Other nations retaliated and raised tariffs as well.

The resulting drop in world trade only made the glut of American factory and farm products harder to sell.

As international trade falls, a global drop in business leads to a worldwide depression.



There were several causes of the Great Depression. There is still disagreement over which are most important.

Each of the following contributed to dangerous economic conditions:	hardships in Europe and rural America
	uneven distribution of wealth
	speculation in the stock market
	increased personal debt

Objectives

- Examine the spread of unemployment in America's cities.
- Discuss the impact of the Great Depression on rural America.
- Explain the human and geographical factors that created the Dust Bowl.



Terms and People

- **bread line** – where charities or local agencies gave food to the poor
- **Hoovervilles** – shantytowns set up on empty land in cities and named after the President
- **tenant farmers** – rural farmers who lost their land but stayed on to work for larger landowners
- **Dust Bowl** – millions of acres in the Great Plains that were destroyed when dust storms blew away the soil

Terms and People (continued)

- **Okies** – Great Plains farmers forced off their land by the Dust Bowl
- **repatriation** – policy whereby local, state, and federal governments encouraged or coerced Mexican immigrants – some of them U.S. citizens – to return to Mexico



How did the Great Depression affect the lives of urban and rural Americans?

The stock market crash signaled the end of boom times and the economy staggered into the Great Depression. **Desperate poverty gripped the nation leaving a permanent impression on those who lived through it.**

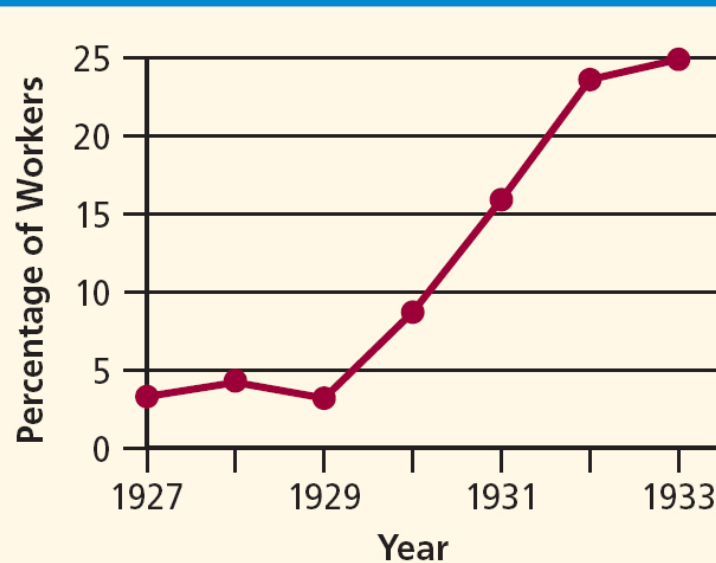
Tested by extreme hardship, this generation forged a strong character and will to restore prosperity.

Few Americans understood the causes of the Great Depression, but everyone felt the impact.

Between 1921–1929, the unemployment rate never rose above 4%. **By 1933, however, it was near 25%.**

Those who managed to keep their jobs had their wages and hours cut.

Unemployment, 1927–1933



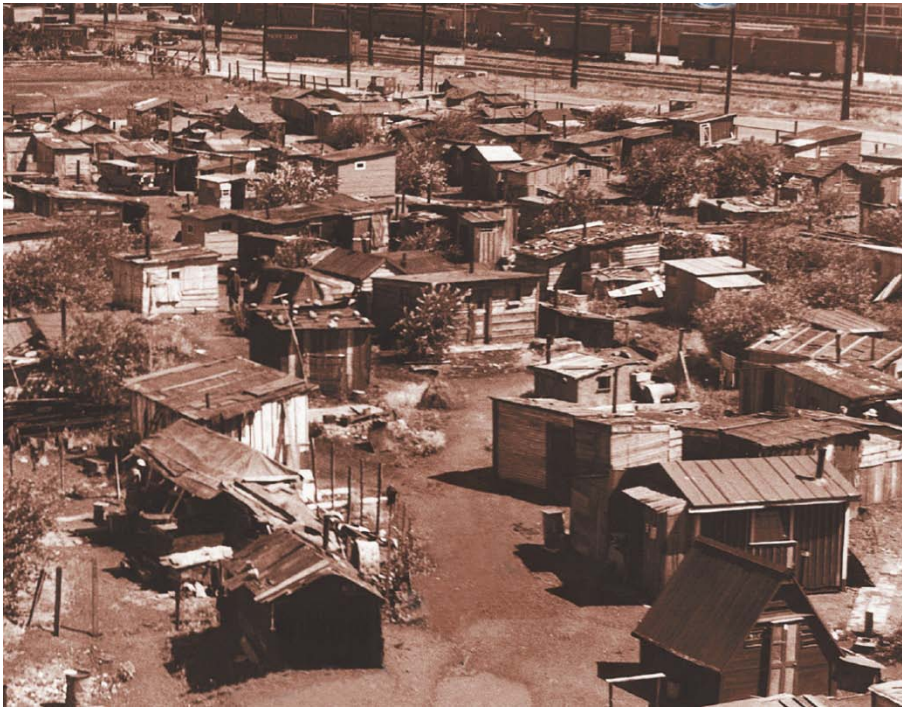
Source: *Historical Statistics of the United States*

Unemployment reached its highest levels in American history during the 1930s.

For many, the only food available came from public soup kitchens or **bread lines** run by charitable organizations.

People sold their property to buy food.

The homeless lived in empty railroad cars, in cardboard boxes, or in shacks built on public land or empty lots.



Hoovervilles appeared in major cities across the country.

Between 1930 and 1934, nearly a million farmers lost their farms, homes, and farm equipment because they could not pay their mortgages.

Bankers sold the land and equipment at auction. Some farmers became **tenant farmers**, working for bigger landowners. Others decided to leave in search of work elsewhere in the U.S.



The remaining farmers on the Great Plains suffered a terrible drought, which led to the **Dust Bowl**.

Dust storms destroyed millions of acres of farmland.

**Millions of tons of topsoil were blown away
in giant dust storms.**



- Farmers had dug up thick prairie grasses to plant wheat so **there was nothing to hold the soil in place.**
- 100 mile-per-hour winds blew dust clouds 8,000 feet tall in Oklahoma, Texas, New Mexico, and Colorado.
- Wildlife and farm animals suffocated in the choking winds.

Farmers who had lost their land, called **Okies** regardless of where they were from, were forced to leave.

In old trucks, they moved west or to northern cities. 800,000 Okies left Texas, Oklahoma, Missouri, and Arkansas alone. Rural states lost population during the 1930s.

Those who could afford it bought distressed neighbors' farms at low prices to build expanded commercial farms.

Family life was hurt by the Great Depression.

Those who still had jobs lived in fear that their next paycheck would be their last.

Those who were still working felt guilty because friends and relatives were unemployed.

America's birthrate fell to its lowest level on record.

Some teens ran away and families broke up.

Minorities suffered even more during the depression.

- Even in good times, Blacks were “last hired and first fired.”
- Many were thrown off southern farms where they were sharecroppers.

- As Okies moved west to find work, Mexicans faced fierce competition for jobs.
- Local governments urged **repatriation** for Mexicans.

Objectives

- Discuss how Hoover's initial conservative response to the depression failed.
- Explain the changes in the President's policies as the crisis continued.
- Describe how Americans reacted to Hoover's relief programs.



Terms and People

- **localism** – policy whereby problems are best solved at the state and local level and not by the federal government
- **Reconstruction Finance Corporation** – created in 1932 to lend cash to investors to stimulate the economy
- **trickle-down economics** – economic theory that held that money lent to large banks and corporations would in turn be invested in small businesses which would hire more workers

Terms and People (Continued)

- **Hoover Dam** – huge public works project on the Colorado River that provided jobs, water for irrigation, and power
- **Bonus Army** – a march on Washington in 1932 in which World War I veterans seek bonus payment early
- **Douglas MacArthur** – supervised the forced removal of the Bonus Army, which angered many Americans



Why did Herbert Hoover's policies fail to solve the country's economic crisis?

As the Great Depression spread misery across America, **Herbert Hoover struggled unsuccessfully to respond to the nation's problems.**

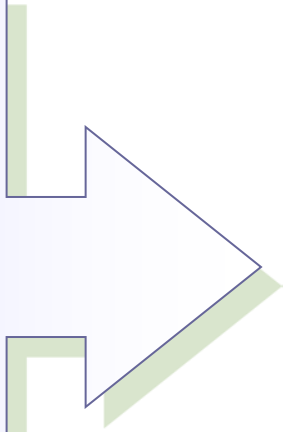
As a result of Hoover's failed response, in 1932 Americans would turn to a new leader and increased government intervention to stop the depression.

Herbert Hoover did not cause the Great Depression, but Americans looked to him to solve the crisis.

He tried a number of different approaches, but in the end he failed to discover the right formula for stopping the crisis.



At the start of the economic downturn, Hoover took a hands-off approach.



Like most economists of the day, he believed that up and down swings in the economy were a natural part of the business cycle.

It was thought that strong businesses would weather storms without the support of the government.

Hoover saw that he must do something:

Asked businesses to keep wages, employment, and prices at current levels

Called for tax cuts, lower interest rates, and public works

Asked wealthy to donate more money to charity



But volunteerism failed:

Hoover put his faith in **localism**, a policy whereby problems are best solved at the local and state levels.

- Towns and states didn't have the necessary resources to deal with the depression.
- Hoover **did not support direct federal aid** to individuals.

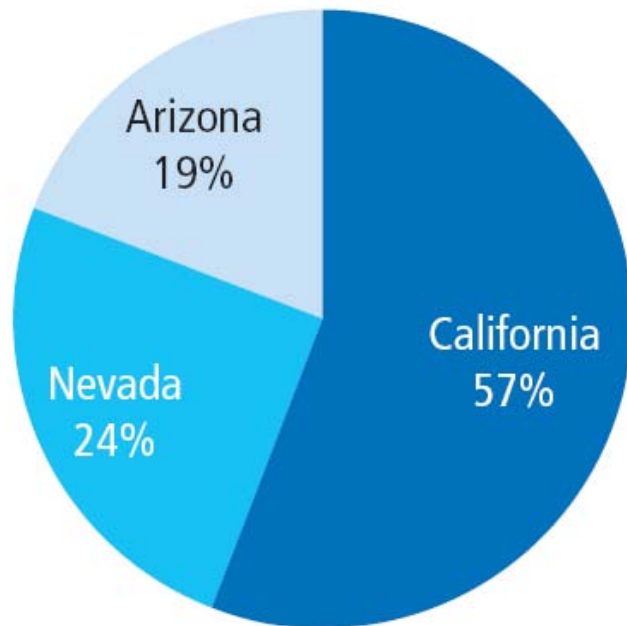
In 1932, Hoover urged Congress to create the **Reconstruction Finance Corporation (RFC)**. The RFC employed a policy known as **trickle down economics**.

The RFC gave billions of dollars to banks and large businesses.

The idea was that they would lend to, and invest in, struggling businesses who would hire workers and thus end the depression.

The RFC failed when businesses did not hire more workers.

Hoover Dam Energy Use



SOURCE: U.S. Bureau of Reclamation

One policy that did succeed was the construction of Boulder Dam (later renamed **Hoover Dam**) across the Colorado River.

Started in 1930, the huge dam provided power for millions and irrigation for farm land, and put thousands to work.

Many grew disillusioned during the Great Depression.



- Some blamed Hoover and some blamed capitalism.
- Some were World War I veterans who wanted a bonus that was promised to them.
- In 1932, those veterans formed the Bonus Army and marched on Washington.

20,000 veterans set up camps and occupied vacant buildings. In July, police tried to evict them and riots erupted.

Hoover ordered General **Douglas MacArthur** to remove the veterans. He used tear gas, cavalry, tanks, and troops with fixed bayonets.

Press photos of troops using excessive force angered the American public.



The eviction of the Bonus Army doomed Hoover's bid for re-election.

Americans were ready for new leadership and a greater role for the government in solving problems.