

The Great Depression

What caused the greatest economic disaster in American History, and how were people affected?

Learning Target

Explain how the Great Depression started.

The Roaring Twenties

In the 20s, there was an *appearance* of prosperity:

- There was an abundance of food.
- Stock prices were high.
- Many people were able to buy stock.
- There was a seemingly high demand for new consumer goods.
- The standard of living increased because of credit.



6 causes of the Great Depression

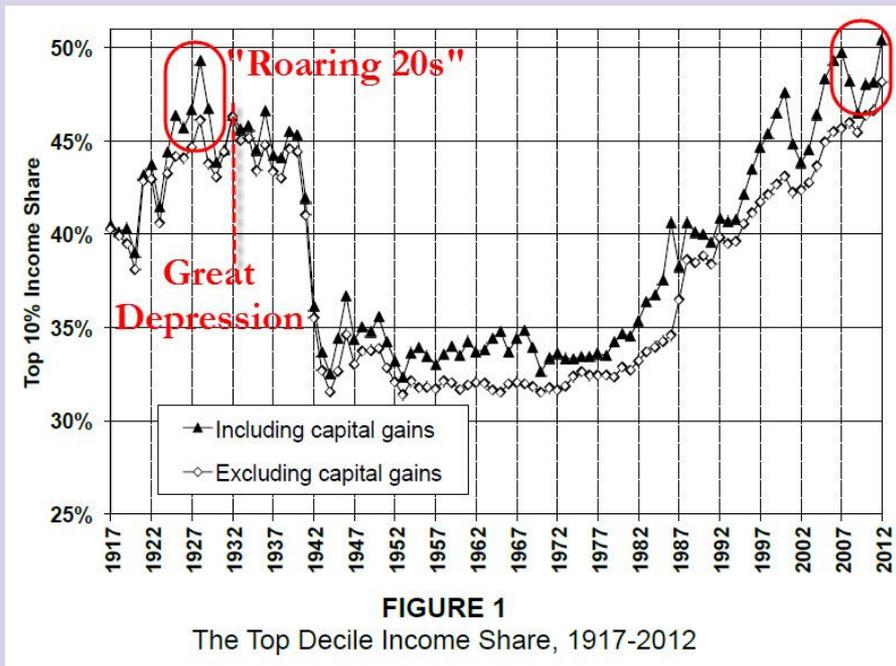
- Wealth inequality
- Lack of capital investment
- Abuse of credit
- Overproduction
- Farm and labor problems
- Tax, trade, and tariff problems.



Income Inequality

• In 1929, only 3% of the population earned \$10,000 or more per year, while 40% of the population earned less than \$1500 per year.

As a result, purchasing power was limited to the wealthiest Americans.



Lack of Capital Investment

There was **not enough capital investment** in companies.

- Emphasis was taken away from investing in machinery, additional training, and research and development.
- Investment in stock led to higher stock prices without increased value.



Abuse of Credit

- The public was unaccustomed to the idea.
- They overextended themselves.
- Many Americans borrowed money in order to risk it in the stock market.



Overproduction

- American factories were so efficient that they were producing far more goods than people were able to buy.



Farm and Labor Problems

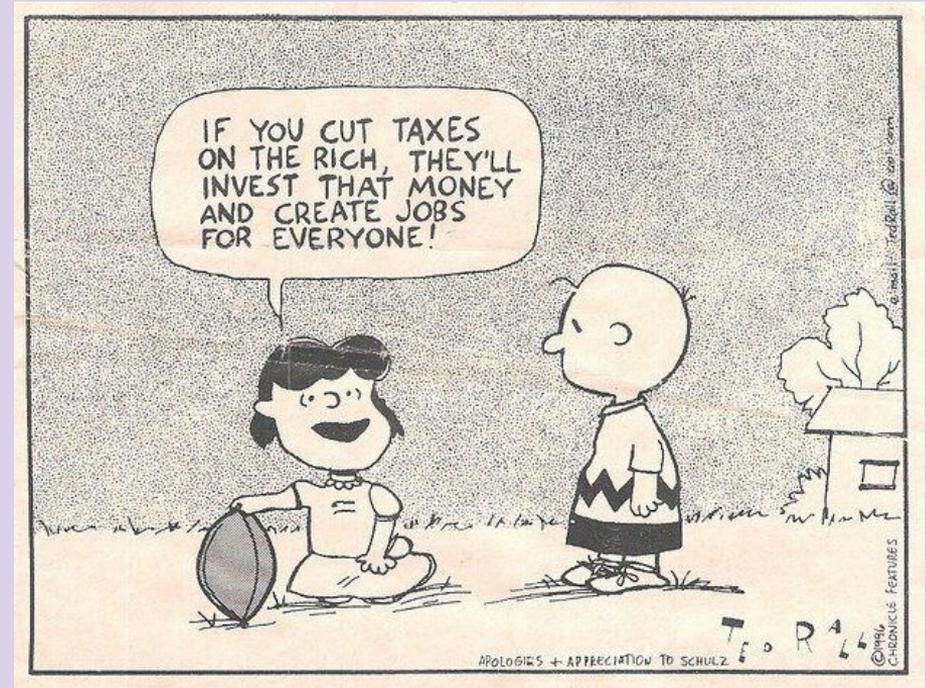
Trouble for Farmers and Laborers.

- After WWI, demand for crops plummeted, leaving farmers broke.
- When times had been good, many farmers bought new land and equipment on credit. Now that times are bad, they're deep in debt.
- Many laborers still worked long hours for little pay.



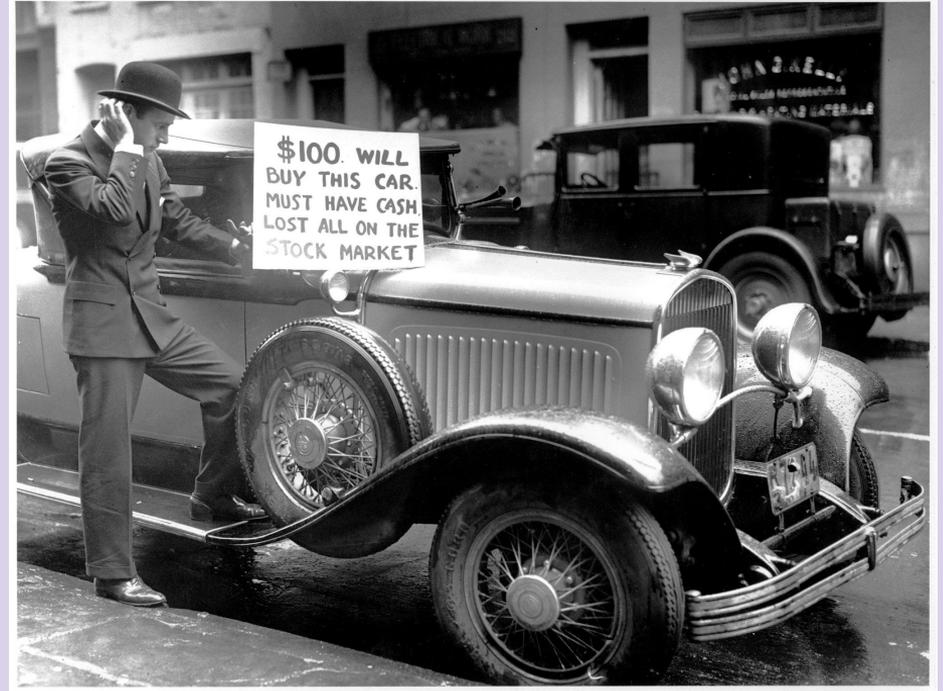
Tax, Trade, and Tariff Problems

- “Trickle-down” tax policies added to income inequality and discouraged capital investment
- The tariffs restored to protect American industries also limited exports.
- Our inability to sell goods in other countries limited demand.



The Stock Market Crash of 1929

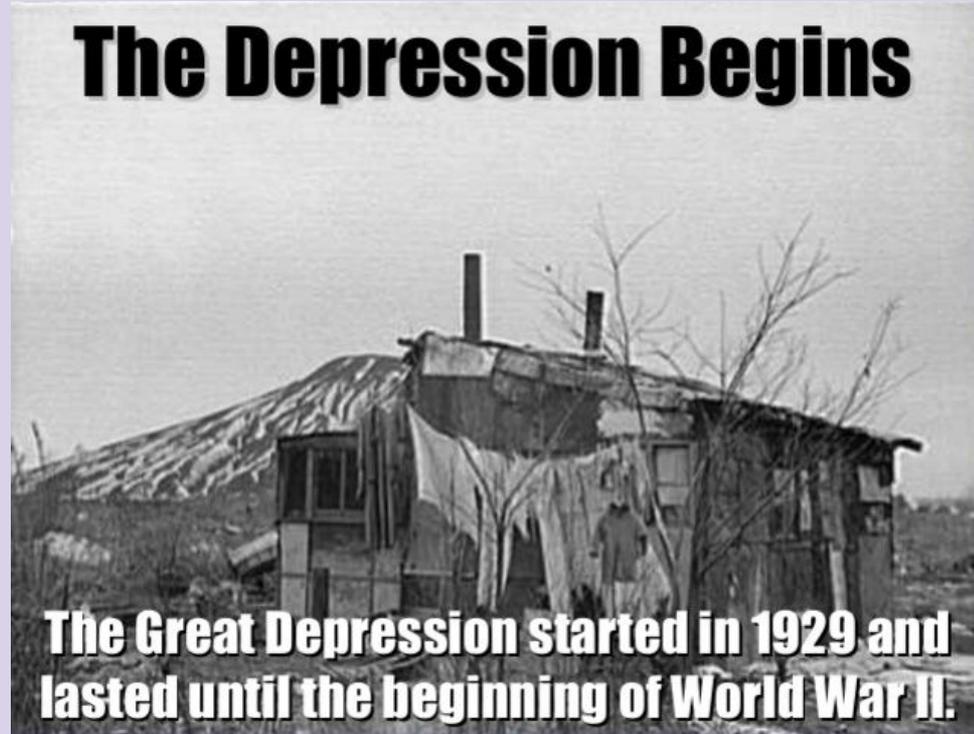
- After a decade of artificially inflated stock values, when it crashed it crashed hard.
- Stock market crashes happen quite often, but because of the 5 factors previously discussed, recovery was a problem.



The Great Depression

The stock market crash triggered the depression, but only because the underlying problems were already there. The economy couldn't recover because of:

- Wealth inequality
- Lack of capital investment
- Abuse of credit
- Overproduction
- Farm and labor problems
- Tax, trade, and tariff problems.



The Vicious Cycle



Learning Target

Explain how the Great Depression started.

Learning Target

Explain how the Great Depression spread throughout America.

How did it spread?

- Bank Failures
- Unemployment
- Homelessness
- Migration
- Business failures



Average Stock Price (IN DOLLARS)

Year

1920

7.6

1921

6.8

1922

8.2

1923

8.5

1924

8.9

1925

10.7

1926

12.0

1927

14.4

1928

18.3

1929

24.0

1930

23.0

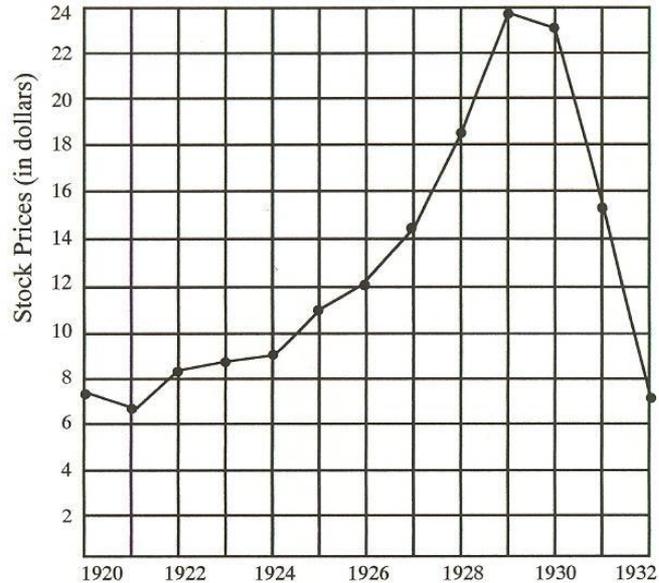
1931

15.4

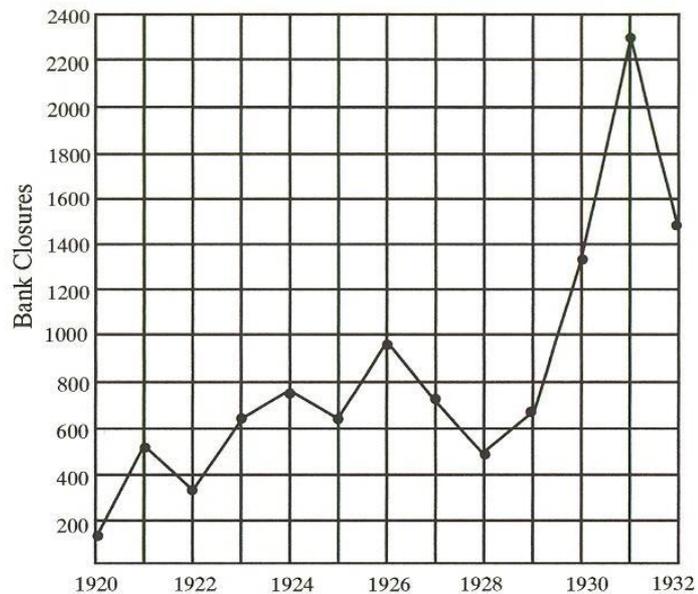
1932

7.3

INDEX OF COMMON STOCK PRICES

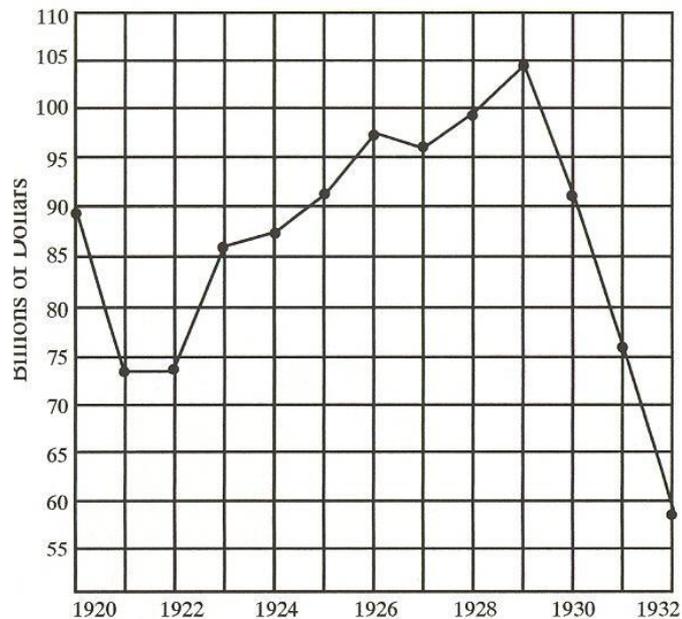


BANK CLOSURES



Year	Bank Closures
1920	168
1921	505
1922	367
1923	646
1924	775
1925	618
1926	976
1927	669
1928	499
1929	659
1930	1352
1931	2294
1932	1456

GROSS NATIONAL PRODUCT



GNP (IN BILLION OF DOLLARS)

Year

1920

89

1921

74

1922

74

1923

86

1924

87

1925

91

1926

97

1927

96

1928

99

1929

104

1930

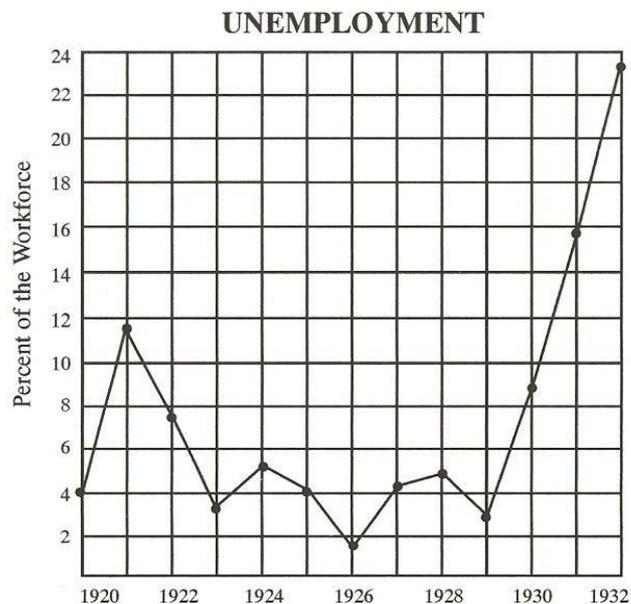
91

1931

76

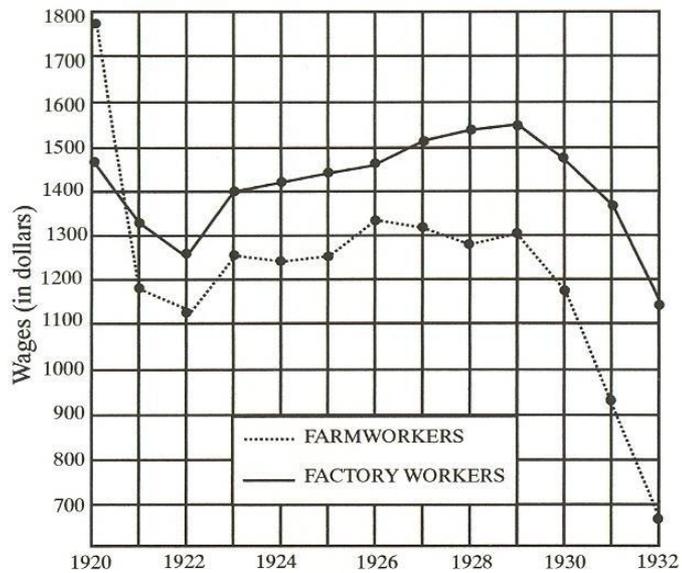
1932

58



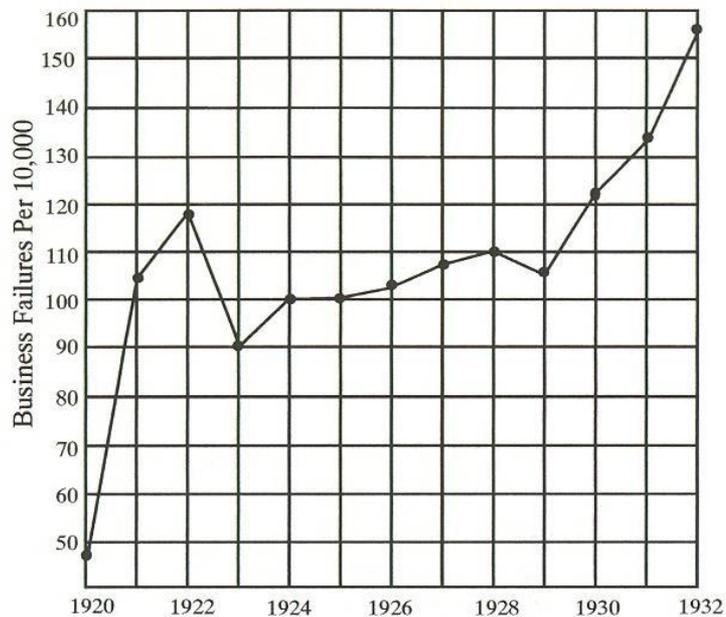
Year	Percent of Workforce
1920	4.0
1921	11.8
1922	7.5
1923	3.2
1924	5.5
1925	4.0
1926	1.9
1927	4.1
1928	4.4
1929	3.1
1930	8.8
1931	15.9
1932	23.5

WORKERS' YEARLY WAGES



Year	Farm- workers	Factory Workers
	(IN DOLLARS)	
1920	1790	1490
1921	1190	1320
1922	1127	1260
1923	1251	1400
1924	1248	1420
1925	1267	1445
1926	1330	1476
1927	1302	1502
1928	1290	1534
1929	1300	1543
1930	1177	1488
1931	914	1369
1932	669	1150

BUSINESS FAILURES



Year	Business Failures
1920	49
1921	105
1922	118
1923	90
1924	100
1925	100
1926	103
1927	108
1928	110
1929	106
1930	121
1931	133
1932	155

The Vicious Cycle









The Dust Bowl

Decades of over-farming in the midwest combined with a massive drought to cause epic dust storms throughout the 1930s.

Thousands migrated anywhere to find work (California)









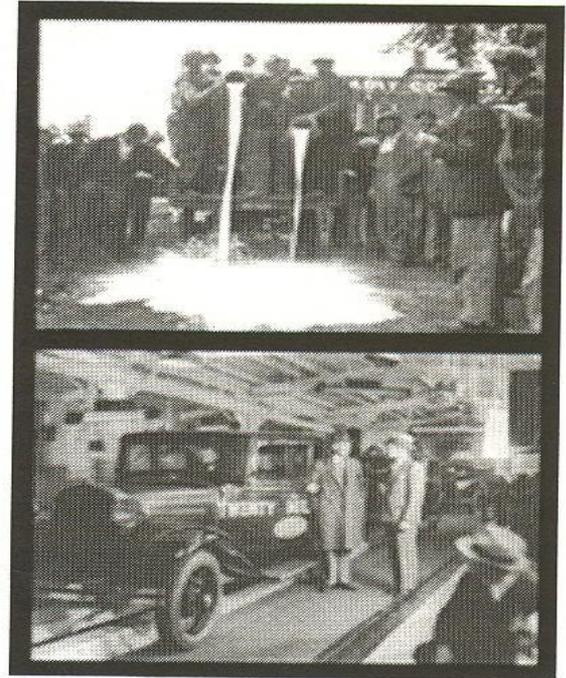
Learning Target

Explain how the Great Depression spread throughout America.

Economic Briefing A: Overproduction of Goods

The economy is producing more goods than can be purchased and consumed. The consequences of this economic trend are evident in this evidence gathered by think-tank researchers:

- Because of lagging sales, automobile production has been reduced from 411,000 cars a month in 1929 to just 89,000 a month in 1932. The average American no longer makes enough money to buy a new car.
- 1 billion barrels of oil were produced in 1929. This year oil refineries will produce only 800,000 barrels.
- Farm production outpaced demand to such a high degree that the price of wheat dropped from \$1.37 to 61¢ a bushel in 1930. Prices are presently so low that wheat farmers are now losing \$1.50 on every acre they plant. Some farmers are destroying agricultural goods to try to raise prices by reducing supply.
- Contracts for building new homes and apartments are down 80 percent since 1929. At the same time, several million Americans have become homeless because they cannot afford housing.



Critical-Thinking Question A: You are an economist at a university think tank who has been asked by Congress to propose solutions to the economic difficulties Americans face in 1932. Which of the following solutions do you think would best solve the problem of overproduction of goods? Why?

- A. The federal government should allow farmers and businesses to fail. The business cycle always has ups and downs. Eventually, the economy will right itself without government interference.
- B. The federal government should create a planning agency, overseen by the government but with the input of business leaders, to better plan production goals. Farmers should be paid by the government to take crops out of production until farm prices are stabilized.
- C. The federal government should oversee and plan all business and agricultural production to more closely match supply with demand.

Economic Briefing B: Unequal Distribution of Wealth

One reason consumers lack purchasing power is the unequal distribution of wealth. Indicators of the concentration of wealth are apparent in this evidence gathered by think-tank researchers:

- 1 percent of the population has 59 percent of the national wealth. 33 percent of the national wealth is held by 12 percent of the population. 87 percent of the people own just 8 percent of the national wealth.
- 92 percent of all American families have incomes of \$2,500 or less. 36,000 families share \$9.8 billion a year: \$2.5 million per family or a thousand times as much as the other 92 percent.
- The wealthy tend to spend money on luxury items rather than basic necessities. The general lack of wealth in the population accounts for the low sales of automobiles, vacuum cleaners, refrigerators, and other durable consumer goods.
- The huge oversupply of workers has encouraged employers to cut wages. Workers' wages have dropped by 40 percent since 1929. Women working in Brooklyn's clothing industry are paid \$2.39 for a 50-hour week. Union miners in Pennsylvania, West Virginia, and Kentucky make \$10.88 a week.



Critical-Thinking Question B: You are an economist at a university think tank who has been asked by Congress to propose solutions to the economic difficulties Americans face in 1932. Which of the following solutions do you think would best solve the problem of the unequal distribution of wealth? Why?

- A. The federal government should do nothing about this so-called “problem.” The accumulation of wealth is a product of hard work and provides an incentive for those at the bottom of the economic ladder to work harder in tough times.
- B. The federal government should pass legislation leading to higher taxes on corporations and the wealthy. The money from these taxes can be used for services to help the needy.
- C. The federal government should seize the income and property of the wealthy and redistribute it so that all Americans share equally.

Economic Briefing C: High Unemployment

The unemployment rate has been growing since 1929 when the stock market crashed. The unemployment rate has now reached extraordinary levels. The nature of the problem is apparent in this evidence gathered by think-tank researchers:

- In 1920 only 49 businesses per 10,000 failed. In 1932 the business failure rate reached 155 per 10,000.
- Corporate profits have dropped from \$10 billion three years ago to just \$1 billion in 1932.
- As corporate profits have fallen and businesses failed, companies have laid off workers. Today the unemployment rate stands at an all-time high of 23.5 percent; nearly one of every four workers is unemployed.
- 13 million people are out of work. Millions of others have had their hours severely cut.
- In Lowell, Massachusetts, once the center of the American textile industry, the unemployment rate is 90 percent. In Akron, Ohio, the unemployment rate is 60 percent; in Cleveland, Ohio, 50 percent; in Toledo, Ohio, 80 percent. There are 1 million workers without jobs in New York City. Every week another 100,000 workers across the country lose their jobs.
- One Arkansas man walked 900 miles looking for work.
- A Manhattan employment agency advertised for 300 jobs; 5,000 people applied.



Critical-Thinking Question C: You are an economist at a university think tank who has been asked by Congress to propose solutions to the economic difficulties Americans face in 1932. Which of the following solutions do you think would best solve the problem of high unemployment? Why?

- A. The federal government should encourage business growth so that thriving businesses can provide jobs for the unemployed. Measures should be undertaken to provide loans and tax relief to struggling businesses, and high tariffs should be passed to protect American businesses from foreign competition.
- B. The federal government should disregard the costs and immediately begin the construction of major public works projects—including the construction of dams, roads, bridges, and schools—to provide jobs for the unemployed.
- C. The federal government should take control of all businesses and industry and provide a job to every American.

Economic Briefing D: Massive Poverty

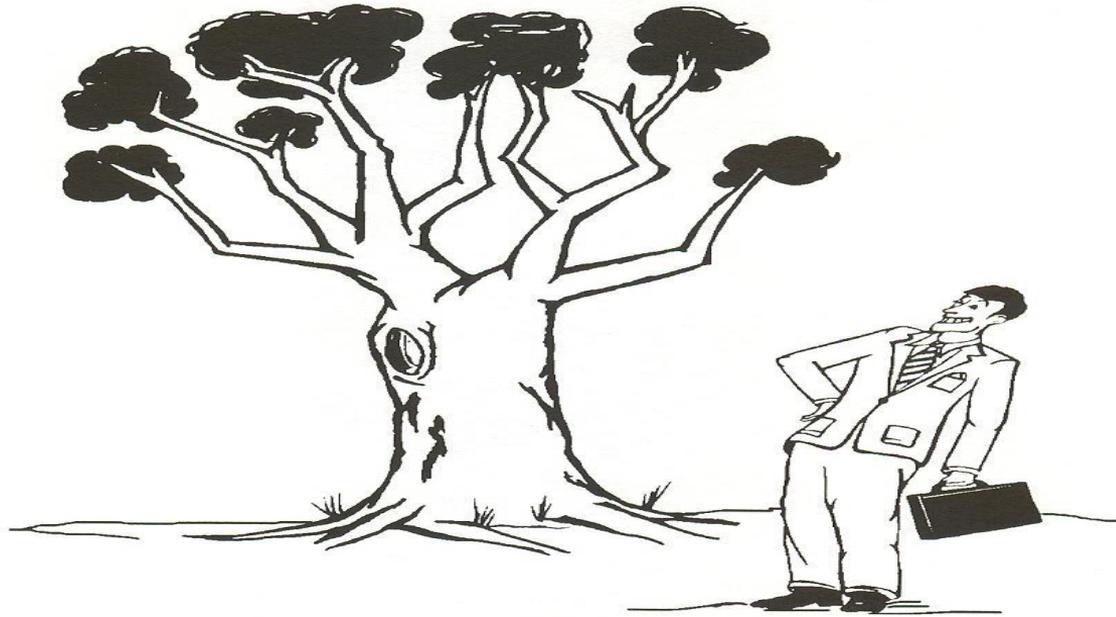
Americans throughout the nation are suffering from economic hardship and the lack of basic necessities. The difficulties they face are apparent in this evidence gathered by think-tank researchers:

- Over 60 percent of Americans are now categorized as poor by the federal government.
- Nine million savings accounts have been wiped out since 1930. With thousands of banks failing and closing their doors, hard-working, honest people have lost their financial safety nets.
- 273,000 families have been evicted from their homes in 1932.
- There are two million homeless people migrating around the country. They include farmers forced off their land because of the severe drought and low prices for agricultural goods, men unable to find jobs in industries, and women with young children in search of food and shelter.
- New York social workers report that one fourth of all schoolchildren are malnourished. In the mining counties of West Virginia, Illinois, Kentucky, and Pennsylvania, the proportion of malnourished children may be as high as 90 percent.
- A Kentucky miner says that some people in his state have been surviving on wild greens such as violet tops, wild onions, and forget-me-not wild lettuce.



Critical-Thinking Question D: You are an economist at a university think tank who has been asked by Congress to propose solutions to the economic difficulties Americans face in 1932. Which of the following solutions do you think would best solve the problem of massive poverty? Why?

- A. The federal government should provide tax breaks to business owners and the wealthy. Wealthy business owners can then invest more in their businesses, which will allow them to grow and to provide jobs for those without income. The federal government should not provide direct relief to the poor, since this will only encourage dependency on federal programs and cause people to stop looking for work. Poverty relief should be left to private charities, states, and local governments.
- B. The federal government should immediately begin a program of direct relief to the poor. The program should include monthly payments to those without sufficient income, free food, and public housing for those who are homeless.
- C. The federal government should confiscate income and property from the wealthy and redistribute it to the needy.



Conservative Solutions

- Provide tax relief, loans, and encouragement to businesses. Business prosperity and the accumulation of wealth at the top will “trickle down” to those in need by creating more jobs.
- Discourage federal aid to the poor. Instead, encourage private charities and local and state governments to organize and provide poverty relief.
- Balance the budget to maintain financial stability.
- Ask for voluntary cooperation from businesses to stabilize wages and hours in an average workday.
- Increase the federal government’s commitment to public works. Blame economic problems on the natural business cycle, and buoy public confidence through optimistic public statements.
- Increase tariffs to protect American businesses from foreign competition.



Liberal Solutions

- Increase taxes on the income of the wealthy and corporations.
- Provide direct federal relief to the poor.
- Make a massive federal commitment to public works to provide jobs and encourage economic growth. Government spending will get the economy moving again.
- Create a federal planning agency that includes industrial leaders to better plan economic activity.
- Provide aid to farmers in the form of loans and payments to take crops out of production until prices for agricultural goods stabilize.

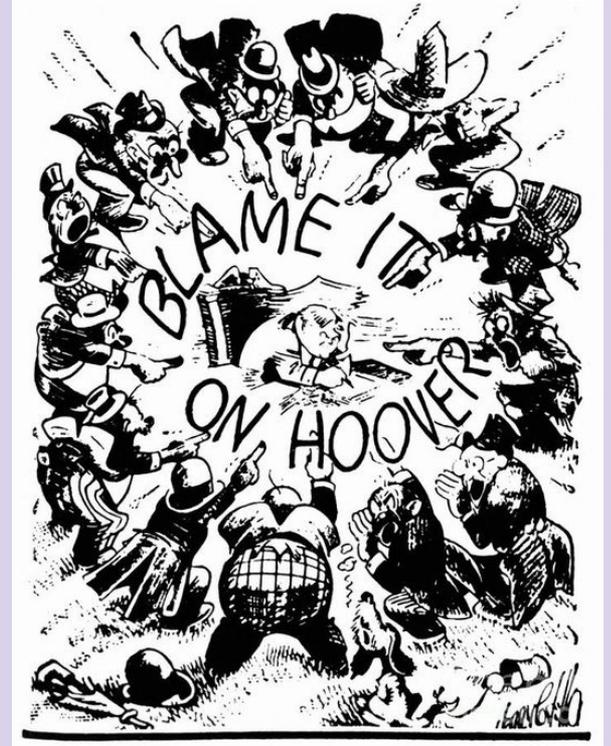


Radical Solutions

- Seize the income and property of the wealthy and redistribute it so that all Americans share equally.
- Have the government, rather than private business owners, control all business enterprises.
- Guarantee employment to all workers through government control of industries.
- Reorganize the farming industry into cooperatives to eliminate the disastrous effects of competition and market forces.

Hoover's Response

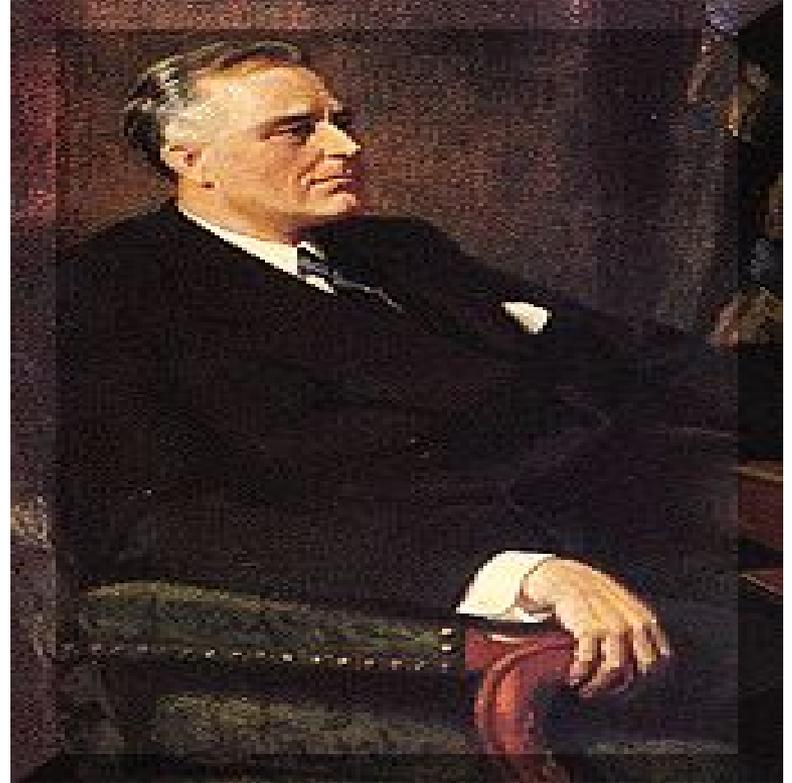
- Worked hard, but believed in “rugged individualism.”
- NO Direct relief. Why?
- Met with industry leaders to encourage voluntary cooperation.
- Tax relief for banks and businesses. (RFC)
- Higher tariffs to protect businesses.
- Encouraging speeches (Depression, not panic)
- Public Works projects, but no deficit spending.



THE ELECTION OF 1932



HERBERT HOOVER
REPUBLICAN



FRANKLIN D. ROOSEVELT
DEMOCRAT

(56.9% of electorate voting)



	ELECTORAL VOTE	POPULAR VOTE (%)
Franklin D. Roosevelt <i>(Democratic)</i>	472	22,821,857 (57.4)
Herbert Hoover <i>(Republican)</i>	59	15,761,841 (39.7)
Norman Thomas <i>(Socialist)</i>	—	881,951 (1.2)
Other candidates <i>(Communist, Prohibition, Socialist Labor, Liberty)</i>	—	271,355



**Presidents Hoover and Roosevelt on Inauguration Day,
March 4, 1933. Photo National Archives.**



Say that civilization is a tree which, as it grows, continually produced rot and dead wood. The radical says: "Cut it down." The conservative says: "Don't touch it." The liberal compromises: "Let's prune, so that we lose neither the old trunk nor the new branches." This campaign is waged to teach the country to march upon its appointed course...avoiding alike the revolution of radicalism and the revolution of conservatism.

Franklin D. Roosevelt, 1932