

Ch 22 The Great Depression Begins

Section 1 The Nation's Sick Economy

Economic Troubles on the Horizon

Industries in Trouble

- Key industries like railroads, textiles, steel barely make profit
- Mining, lumbering expanded during war; no longer in high demand
- Coal especially hard-hit due to availability of new energy sources
- Boom industries—automobiles, construction, consumer goods— now weak
- Housing starts decline

Farmers Need a Lift

- International demand for U.S. grain declines after war
 - prices drop by 40% or more
- Farmers boost production to sell more; prices drop further
- Farm income declines; farmers default on loans; rural banks fail
- **Price-supports**—government buys surplus crops, guarantees prices
 - Coolidge vetoes price-support bill

Consumers Have Less Money to Spend

- People buy less due to rising prices, stagnant wages, credit debts

Living on Credit

- Many people buy goods on **credit** (buy now, pay later)
- Businesses give easy credit; consumers pile up large debts
- Consumers have trouble paying off debt, cut back on spending

Uneven Distribution of Income

- In 1920s, rich get richer, poor get poorer
- 70% of families earn less than minimum for decent standard of living
- Most cannot afford flood of products factories produce

Hoover Takes the Nation

The Election of 1928

- Democrat **Alfred E. Smith**—four times governor of New York
- Republican Herbert Hoover gets overwhelming victory

Dreams of Riches in the Stock Market

- **Dow Jones Industrial Average** tracks state of stock market
- 1920s, stock prices rise steadily; people rush to buy stocks, bonds
- Many engage in **speculation**, buy on chance of a quick profit
- **Buying on margin**—pay small percent of price, borrow rest

The Stock Market Crashes

Black Tuesday

- September 1929 stock prices peak, then fall; investors begin selling
- October 29 or **Black Tuesday**, market, nation's confidence plummet
- Shareholders sell frantically; millions of shares have no buyers
- People who bought on credit left with huge debts
- Others lose most of their savings

Financial Collapse

Bank and Business Failures

- **Great Depression**—economy plummets, unemployment skyrockets
 - lasts from 1929–1940

- After crash, people panic, withdraw money from banks
- Banks that invested in stocks fail; people lose their money
- 1929–1932, gross national product cut nearly in half
 - 90,000 businesses go bankrupt
- 1933, 25% of workers jobless; those with jobs get cuts in hours, pay

Worldwide Shock Waves

- Great Depression limits U.S. ability to import European goods
- **Hawley-Smoot Tariff Act** sets highest protective tariff ever in U.S.
- Other countries cannot earn American currency to buy U.S. goods
- International trade drops; unemployment soars around world

Causes of the Great Depression

- Factors leading to Great Depression:
 - tariffs, war debts, farm problems, easy credit, income disparity
- Federal government keeps interest rates low, encourages borrowing