


Causes of The Great Depression





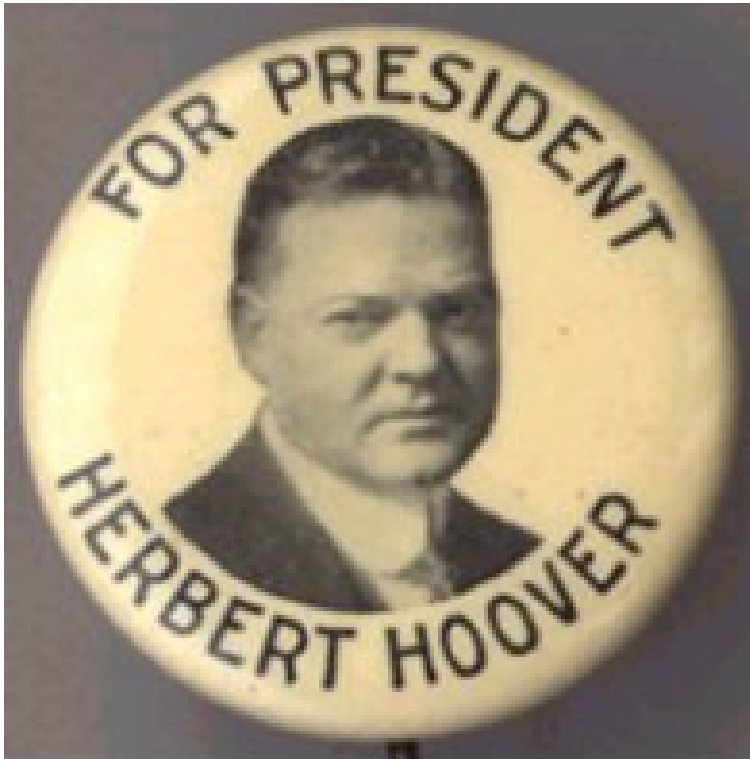
The **Great Depression** is one of the most misunderstood events in American history...



**Some point to the
Crash of the
Stock Market
as the cause of the
Depression...**

Not true.





Some blame
Herbert Hoover,
claiming his
"hands-off"
economic policies
dragged America
into the
Depression...
Not accurate.

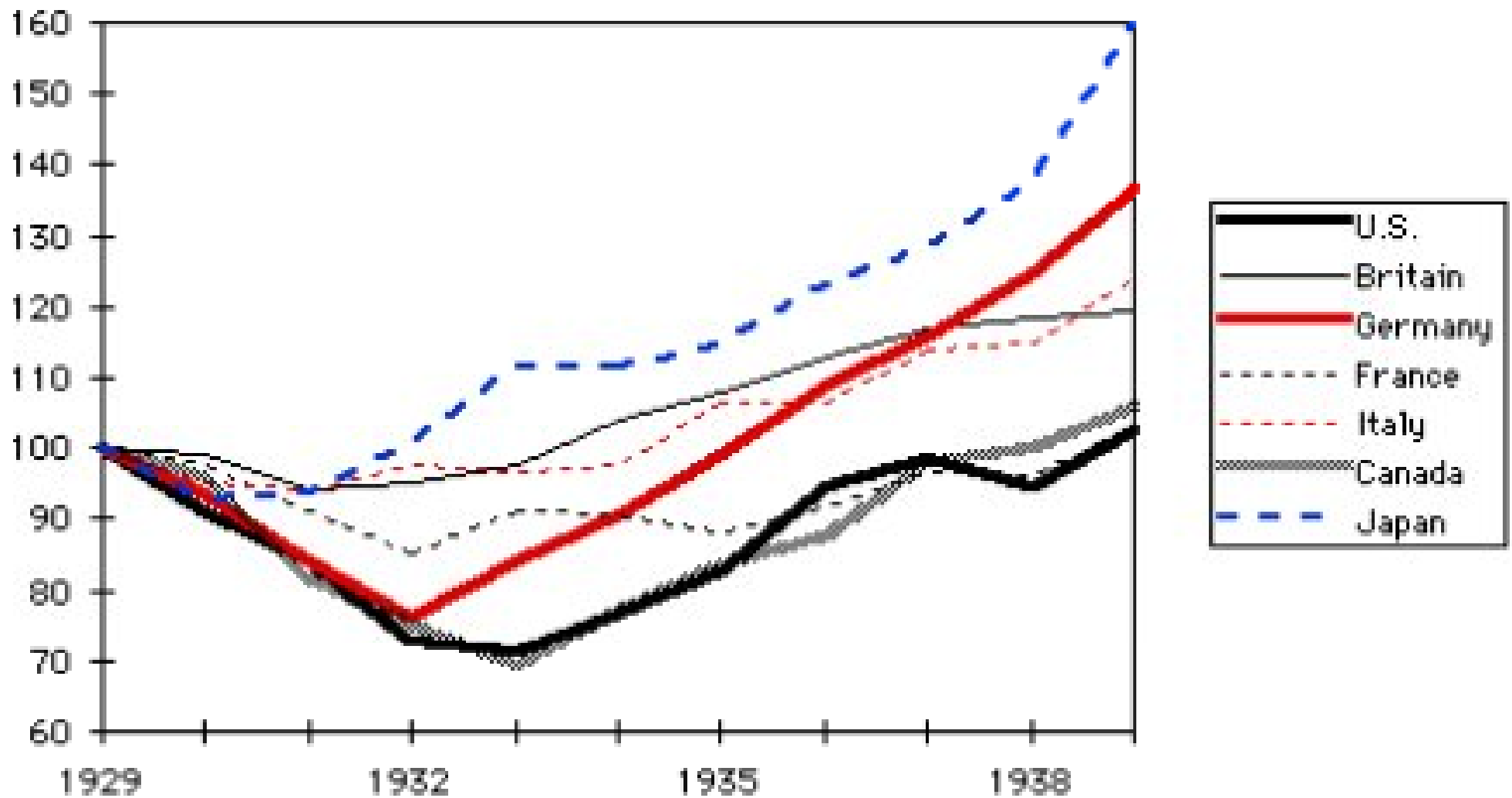


The Great Depression was
a **worldwide event**.

By 1929, the world
suffered a major rise
in unemployment.



Real National Product in the Great Depression, 1929=100





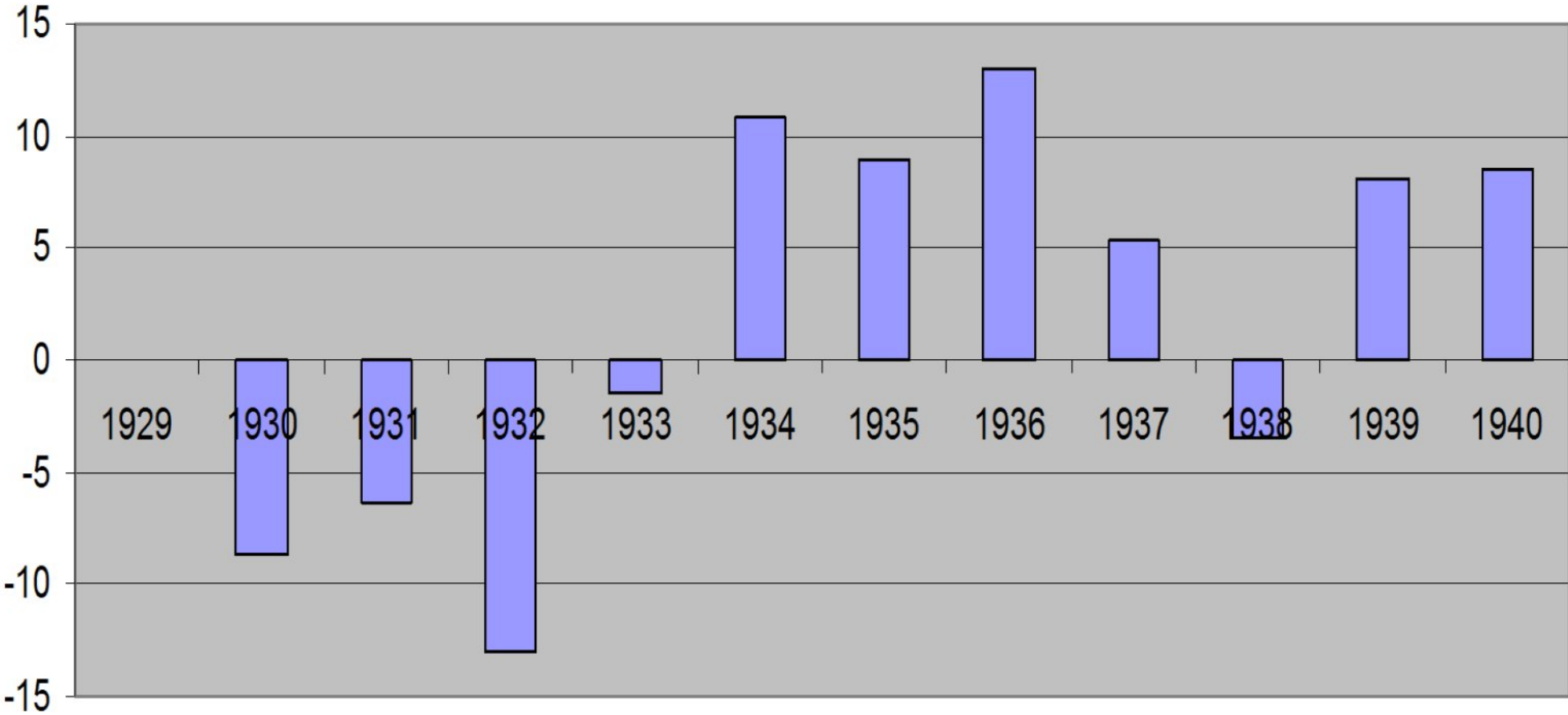
The **Great Depression** was not the country's first depression, though it proved to be the longest and most severe.



In the first four years of
the Depression,
real economic output
(**Gross Domestic Product**)
fell by 30%
from 1929 to 1933.

The U.S. Stock Market
lost 90% of its value.

Percent Change in Real GDP





Many did not realize how severe the downturn was until 1932, when the economy had technically **"hit bottom."**




**But the human
misery
continued long
into the
late 1930s...**



“Brother Can You Spare a Dime?”

*Once I built a railroad, I made it run
I made it race against time
Once I built a railroad, now it's done
Brother, can you spare a dime?*

*Once I built a tower, up to the sun
Bricks and mortar and lime
Once I built a tower, now it's done
Brother, can you spare a dime?*




There are several explanations, but the most obvious causes are four:

1. Overproduction
2. Banking & Money Policies
3. Stock Market Actions
4. Political decisions

1. Over-production:





The “roaring twenties” was an era when our country prospered tremendously.

Average output per worker increased 32% in manufacturing and corporate profits rose 62%.



The availability of so many **consumer goods**, such as electric appliances and automobiles, offered to make life easier.

Americans felt they deserved to reward themselves after the sacrifices of World War I.



"Gee, Mom, Were They All Poor People?"

"Not exactly poor, Bobby. They had money. But they didn't have all the nice things that we have—such as a radio, and electric lights, and a vacuum cleaner. You see, they didn't have electricity, or automobiles, or airplanes. Most of those things hadn't even been invented."

This led to a
high demand
for such goods,
so companies began to
produce more and more,
in order to meet that
demand.





But in reality there existed:

- * **Underconsumption** of these goods here and abroad, because people didn't have enough cash to buy all they wanted...
- * There still existed an **uneven distribution of wealth and income.**


Americas' farms were **overproducing**, as well.

During World War I, with European farms in ruin, the American farm was a prosperous business.



Increased food production during **World War I** was an economic “boon” for many farmers, who borrowed money to enlarge and modernize their farms.





The government had also **subsidized** farms during the war, paying high prices for wheat and grains.

When the subsidies were cut, it became difficult for many farmers to pay their debts when **commodity prices** dropped to normal levels.



So, to summarize it,
HIGH DEMAND
for consumer goods
and
agricultural products
led to
OVERPRODUCTION.



2. Banking & Money Policies





The uneven distribution of wealth didn't stop the poor and middle class from wanting to possess luxury items, such as cars and radios...



But, **wages** were not keeping up with the **prices** of those goods...and that created problems!

One solution was to
let products be
purchased on **credit**.

The concept of
"buying now
and paying later"
caught on quickly.

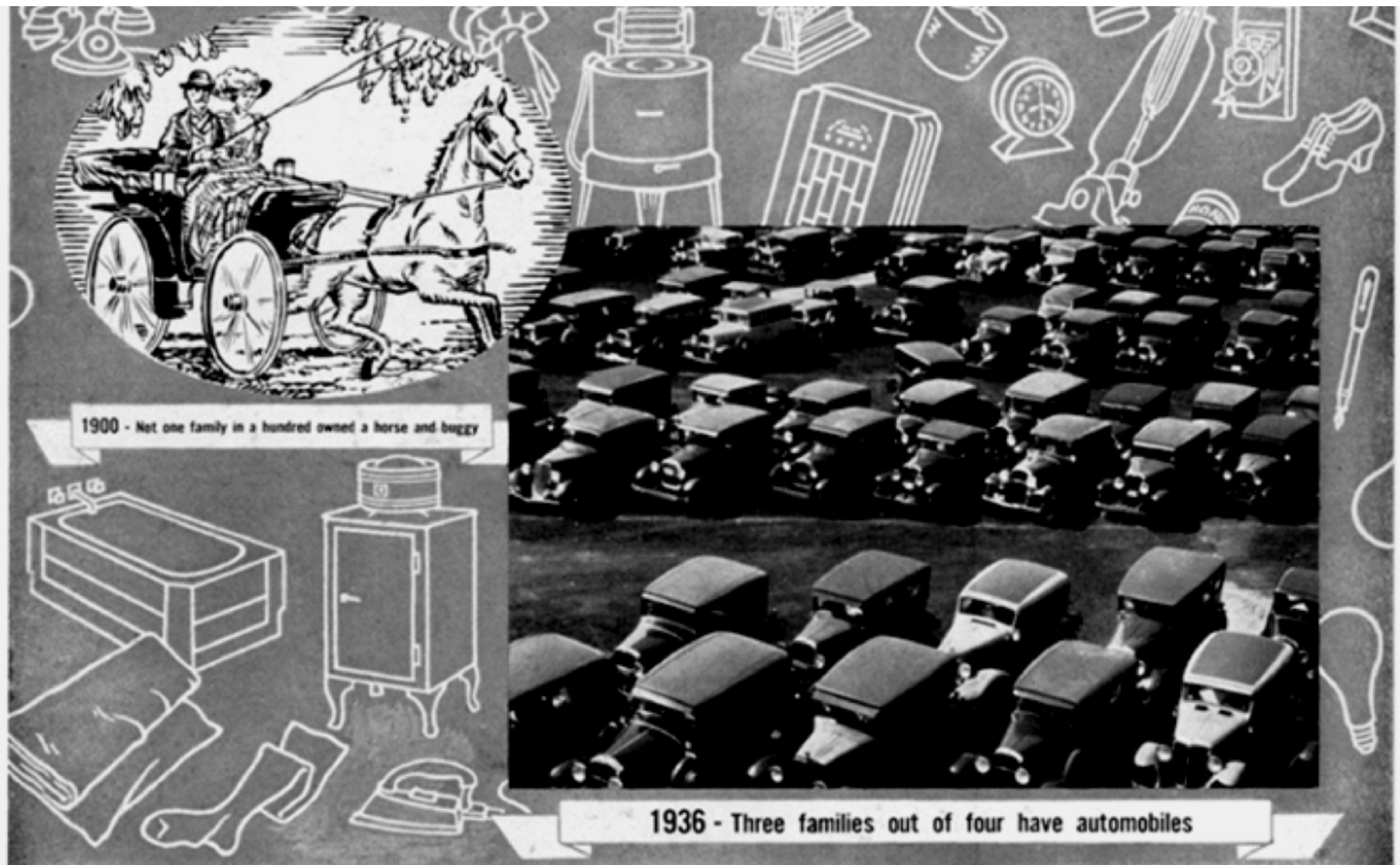




There had been **credit**
before for businesses,
but this was the
first time
personal consumer credit
was available.



By the end of the 1920s,
60% of the cars and 80%
of the radios were bought
on **installment credit**.



More Goods for More People

IN 1900, not one family in a hundred owned a horse and buggy; today, three out of four have cars. One family in thirteen had a telephone; now, one family in two. In 1900, modern plumbing and central heating were luxuries—less than 500,000 homes had electricity—radio and electric refrigeration were unknown. Today, 21 million homes are wired; 7 million families own electric refrigerators; 22 million have radio receivers.

**The Federal Reserve
Board**
was created
by Congress
in response to the
Banking Crisis of 1907.






The **Federal Reserve** was supposed to serve as a protective **"watchdog"** of the nation's economy.

It had the power to set the **interest rate** for loans issued by banks.


In the 1920s,
the "Fed" set very
low interest rates
which encouraged
people to buy on the
"installment" plan
(on credit.)





More buyers meant
more **profit** for
companies, so they
produced more and
more...

so much that a
surplus of goods
was created!





In 1929, the Fed worried that growth was too rapid, so it decided to **raise the interest rates** and **tighten the supply of money.**

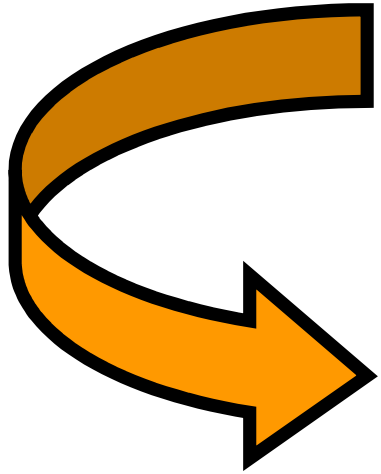
This was a bad miscalculation!

Facing **higher interest rates** and accumulating debt, people began to **slow down** their buying of consumer goods...

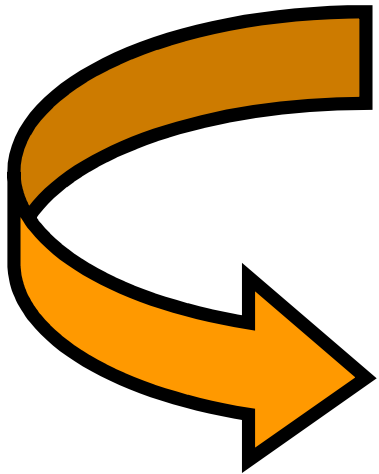


So, to summarize,
banking policies
which offered
"buying on credit"
first with
lower interest rates,
then *raising those rates*,
caused a dangerous situation
in the economy.





Buying on Credit
increased
personal debt.



Higher interest rates
caused
LESS DEMAND
for goods.




3. STOCK MARKET ACTIONS






The **Stock Market** was an indicator of national prosperity.



The Stock Market
growth in the 1920s
tells a story of
runaway optimism
for the future.





Just as one could buy
goods on credit,
it was easy to
borrow money
to invest in the
stock market;
This was called
"margin investing"
(or "buying on margin.")



Small investors were
more apt to invest in
the Stock Market
in large numbers
because the
“margin requirement”
was only 10%.

**This meant that you would
buy \$1,000 worth of
stock with only 10% down,
or \$100.**

**People leapt at the chance
to invest
in business!**




George Olsen and his Music


"I'm In The Market For You"


*I'll have to see my broker
Find out what he can do.
'Cause I'm in the market for you.
With margin I'm all through.
'Cause I want you outright it's true.
We'll count the hugs and kisses,
When dividends are due,
'Cause I'm in the market for you.*



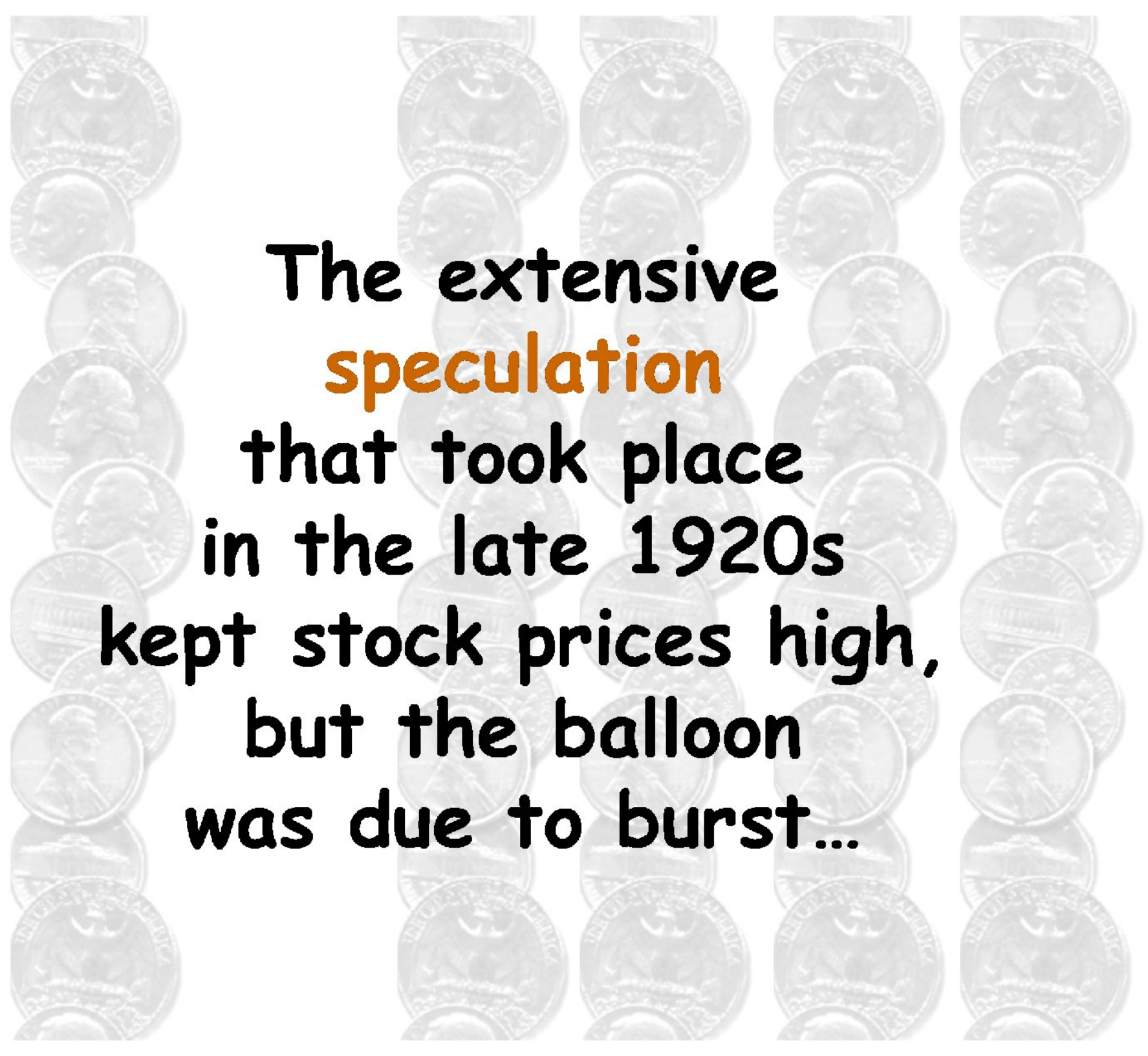


As business was booming in the 1920s and **stock prices kept rising** with businesses' growing profits, **buying stocks on margin** functioned like buying a car on credit.





**The extensive
speculation
that took place
in the late 1920s
kept stock prices high,
but the balloon
was due to burst...**



The crucial point came when banks began to loan money to stock-buyers.

Wall street investors were allowed to use the stocks themselves as collateral. If the stocks dropped in value, the banks would be left holding near-worthless collateral.

So what went wrong?





The Crash:

“Black Tuesday”

**Oct. 29, 1929,
the Stock Market crashed.**

Read It in the Morning
While It Is News

The Globe.

THE WEATHER
Prediction: Fair and cool
See Globe for details and forecasts

VOL. LXXXVI NUMBER 2434

TORONTO, FRIDAY, OCTOBER 26, 1928

24 PAGES

Stock Speculators Shaken in Wild Day of Panic

Erratic Wheat Prices Churn Market

Your Paper

IN ACCORD with the daily routine, The Globe this morning carries the official report of the trading in all markets on the New York Exchange at eleven-thirty a.m. As a result of the panic of yesterday, the market for wheat was particularly active and much of the wheat contracts were sold for delivery in the United States. The Globe will continue to carry news of the wheat market from the New York Exchange, as well as the market for wheat in the United States.

BOOKS AND FLOTSAM MUTELY TELL OF FATE MET BY 50 ON FERRY

LIFE-BELT REMAINS OF SALVAGE FOUND IN LAKE MICHIGAN

WATER TAMES DISASTER

No Evidence Found to Support Story of Fire Fueling

By The Associated Press

CHICAGO, Oct. 25.—The bodies of 50 persons who were killed in the sinking of the ferry boat "The S.S. S. S." in Lake Michigan, were found today by a salvage crew. The bodies were found in a life-belt, and the crew was able to identify them. The bodies were found in a life-belt, and the crew was able to identify them. The bodies were found in a life-belt, and the crew was able to identify them.

New Records Set

Trade made on the New York Stock Exchange today reached a record of \$1,200,000,000, the highest since the crash of 1929. The volume of trading was also a record, with over 100 million shares changing hands.

Wheat prices were also volatile, with a sharp decline in the afternoon. The price of wheat fell to a low of 1.10 per bushel, a record since 1927.

The market for wheat was particularly active, with many contracts being sold for delivery in the United States. The price of wheat was also affected by the news of the sinking of the ferry boat.

The market for wheat was also affected by the news of the sinking of the ferry boat. The price of wheat was also affected by the news of the sinking of the ferry boat.

CANADIAN SITUATION ECONOMICALLY SOUND, SAY FINANCIAL CHIEFS

Goal of Yesterday

Financial experts in the United States today said that the Canadian situation was economically sound. They pointed out that Canada's economy was well diversified and that the country was well equipped to handle the current market conditions.

President A. E. Phipps of Bankers' Association says he fears no general business conditions. Local stock market weakness has not affected the overall market.

'DIP' FORESEEN BY OBSERVERS

Analysts and observers today predicted a sharp decline in the market for wheat. They pointed out that the price of wheat was already at a low level and that a further decline was likely.

SOCIALIST MAY LEAD NEXT PARIS CABINET

President in Paris with Socialists

MAELSTROM OF PANIC AS VALUES PLUNGE, THEN LEAP UP AGAIN

Designs, Then Warnings, Substituted to Bullish Speculators

SMALL BARS SEIZED

Tens of Paper in Spain Given Warning From Total

By The Associated Press

NEW YORK, Oct. 25.—The market today was a maelstrom of panic as values plunged and then leaped up again. The market was characterized by a series of sharp declines followed by sharp recoveries. The price of wheat was particularly volatile, with a sharp decline in the afternoon. The market for wheat was also affected by the news of the sinking of the ferry boat.

Record for All Time Is Set by Wall Street In Frenzy of Selling

Most Distress Decline in History of New York Stock Exchange Seen 12,804,650 Shares Change Hands—Total of 504 Separate Issues Handled—Thousands of Accounts Wiped Out Before Leading Bankers Combine to Halt Stampede—Losses Reported to Reach Billion of Dollars

FINANCIAL LEADERS IN CONFERENCE ISSUE REASSURING STATEMENT

Securities Markets of Country Feel Effects of Downward Movement—Chicago Price Book in Record Day's Trading of 1,230,000 Shares—London Sends Nervous Day Watching Events Across Atlantic

NEW YORK, Oct. 25.—The most distressful decline in the history of the New York Stock Exchange today reached a record of 12,804,650 shares changing hands. The market was characterized by a series of sharp declines followed by sharp recoveries. The price of wheat was particularly volatile, with a sharp decline in the afternoon. The market for wheat was also affected by the news of the sinking of the ferry boat.

CRASH IN NEW YORK ROCKS SHARE PRICES IN TORONTO MARKETS

Rush of Orders Demoralizes Communications for a Time
MINED SHARES AFFECTED
Vigorous Trading Late in Day—Montreal Exchange Has Record Day

Toronto in afternoon the market was a maelstrom of panic as values plunged and then leaped up again. The market was characterized by a series of sharp declines followed by sharp recoveries. The price of wheat was particularly volatile, with a sharp decline in the afternoon. The market for wheat was also affected by the news of the sinking of the ferry boat.

SLANDER CAMPAIGN IN SOUTH ONTARIO CHARGED BY SINCLAIR

'Controversial Tactics' Vigorously Attacked by Liberal Leader

SPEAKS IN OWN DISTRICT

Mr. Sinclair today attacked the tactics of the Conservative Party in South Ontario. He pointed out that the party was using a series of slanders and attacks to win the support of the voters. He said that the party was using a series of slanders and attacks to win the support of the voters.

Printed in Canada with Best Quality Paper

Over 16
million shares
sold in massive
selling frenzy.

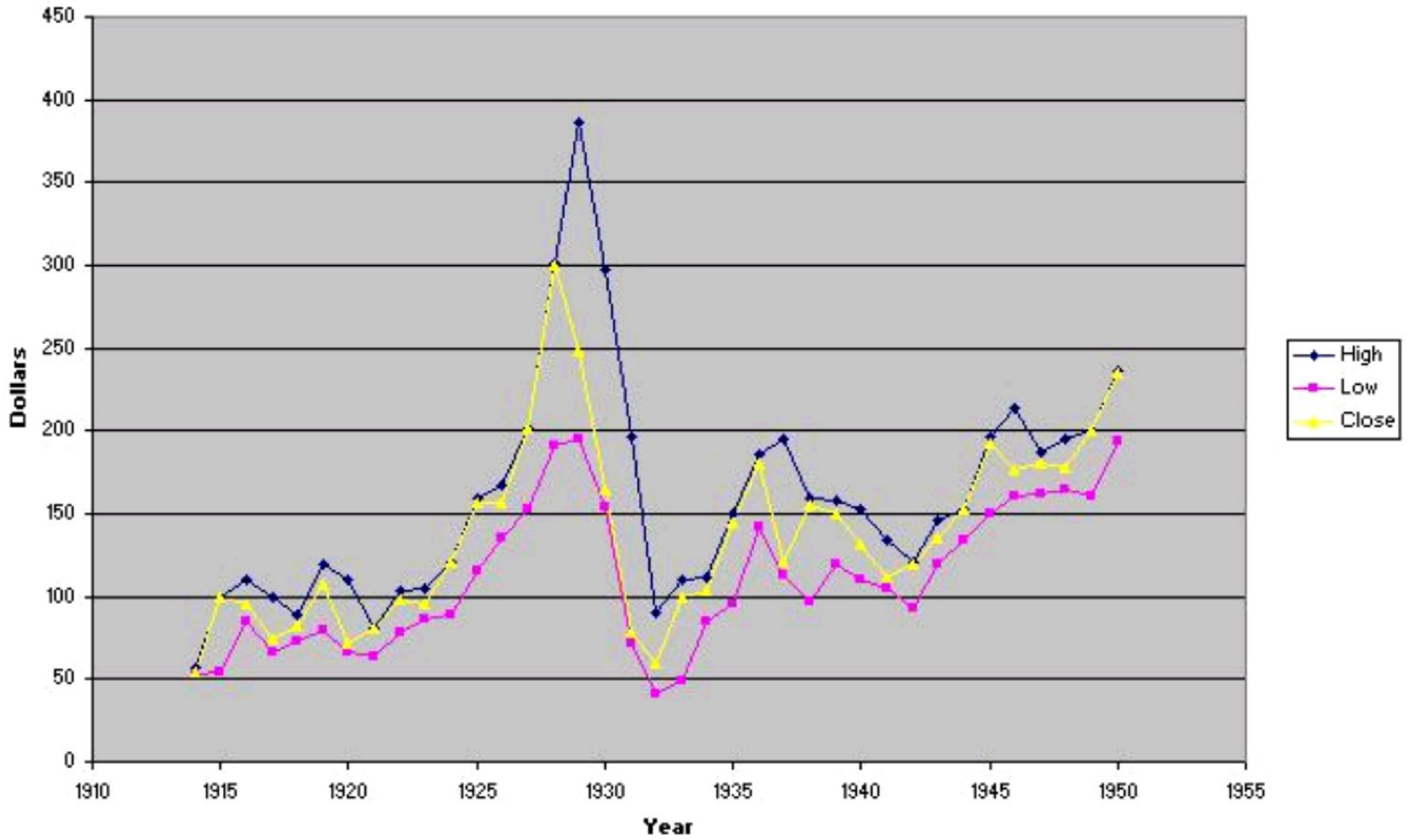
Losses
exceeded
\$26 billion.



Actually, the "crash" was by no means a one-day event.

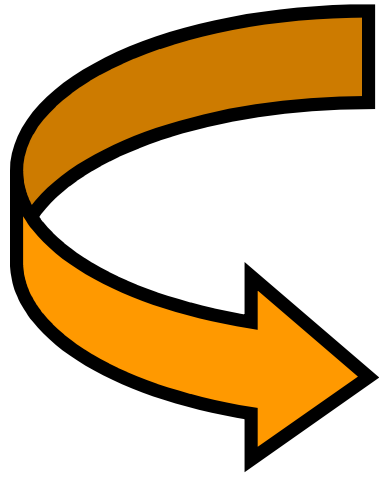
A month earlier, trading increased rapidly as stock values dropped and people panicked, trying to sell their stocks before losing too much of their investments.

The Dow Jones Industrial Average (Annual Data)

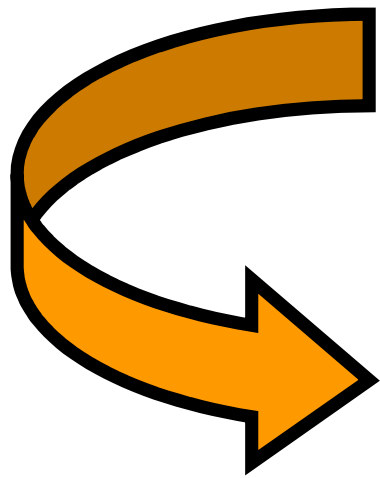




The **Stock Market
Crash of 1929**
was only a symptom-
not the cause of the
Great Depression.



Buying on Margin
was a
risky market
practice.



Bank loans for
stock purchases
was an
unsound practice.



More Poor Banking Policies...



With the **loss of confidence** in stocks, people began to lose confidence in the security of their money being held in banks.

Customers raced to their banks to withdraw their savings.





SAFE DEPOSIT
VAULTS
**AMERICAN
UNION
BANK**
4 COR. PAID ON
20th ST. ACCOUNTS

AMERICAN
UNION
BANK

The **Federal Reserve** was also established to prevent bank closings.

It was suppose to serve as the **"last resort" lender** to banks on the verge of collapsing.



However, the Fed had **lowered** its requirement of **cash reserves** to be held by banks. Many banks didn't have enough cash available to match the amount of money in customers' accounts.

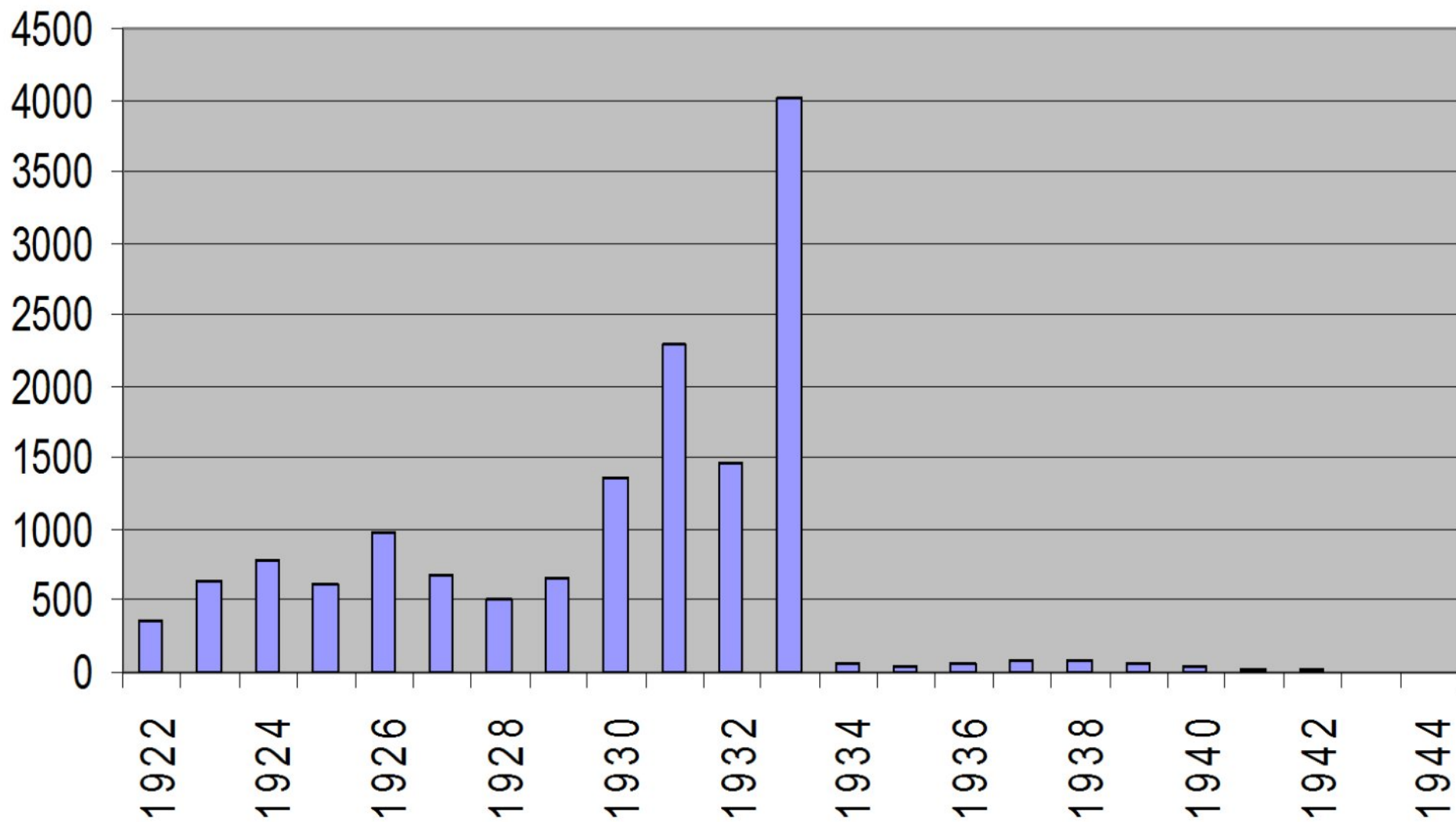




**In early 1930, there were
60 bank failures per month.**

**Eventually, 9,000 banks
closed their doors between
1930 and 1933.**

Bank Failures



Simply put, when a bank fails, a large amount of money disappears from the economy.

There was no insurance for depositors at this time, so many lost their savings.



As banks closed their doors and more people lost their savings, fear gripped depositors across the nation.





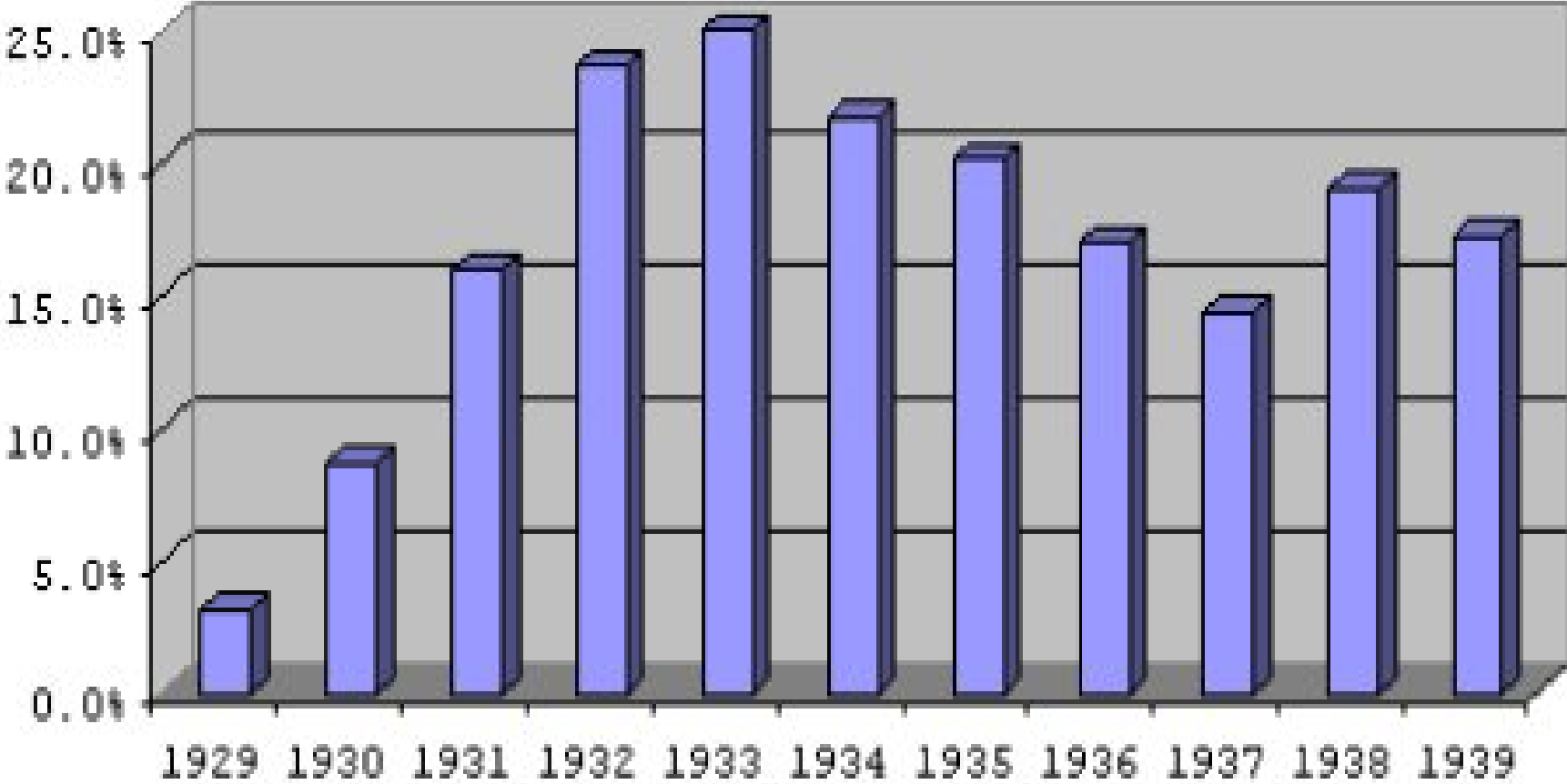
Business also lost its money and could not finance its activities...

More businesses went bankrupt and closed their doors, leaving more people unemployed...

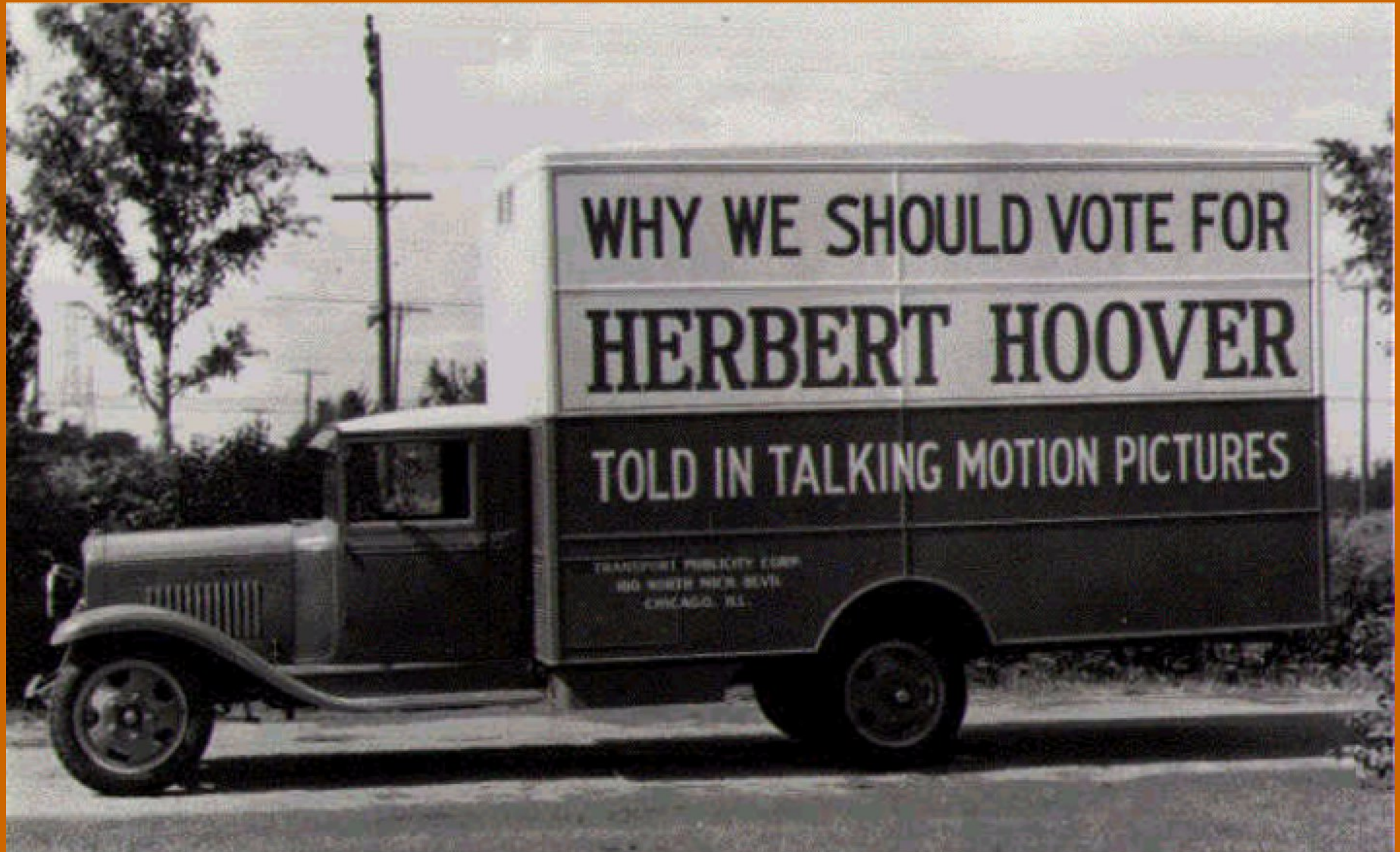


...Causing unemployment to reach even higher levels.

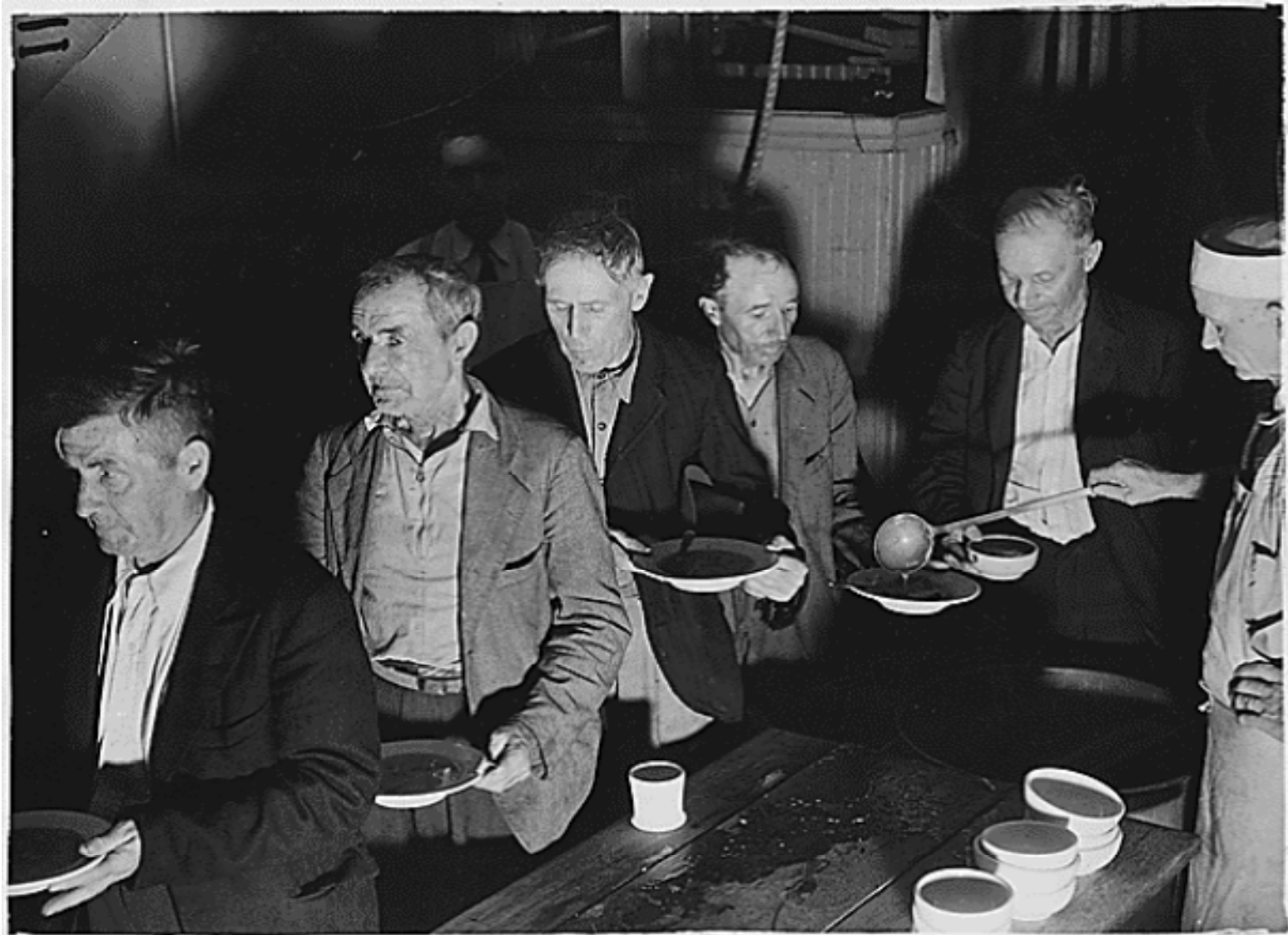
Unemployment in the Great Depression



4. Political Decisions:



The Depression could have been less severe had policy makers not made certain mistakes...



**Leaders in government and business
relied on poor advice from
economic & political experts...**





"The sole function of the government is to bring about a condition of affairs favorable to the beneficial development of private enterprise."

Herbert Hoover (1930)

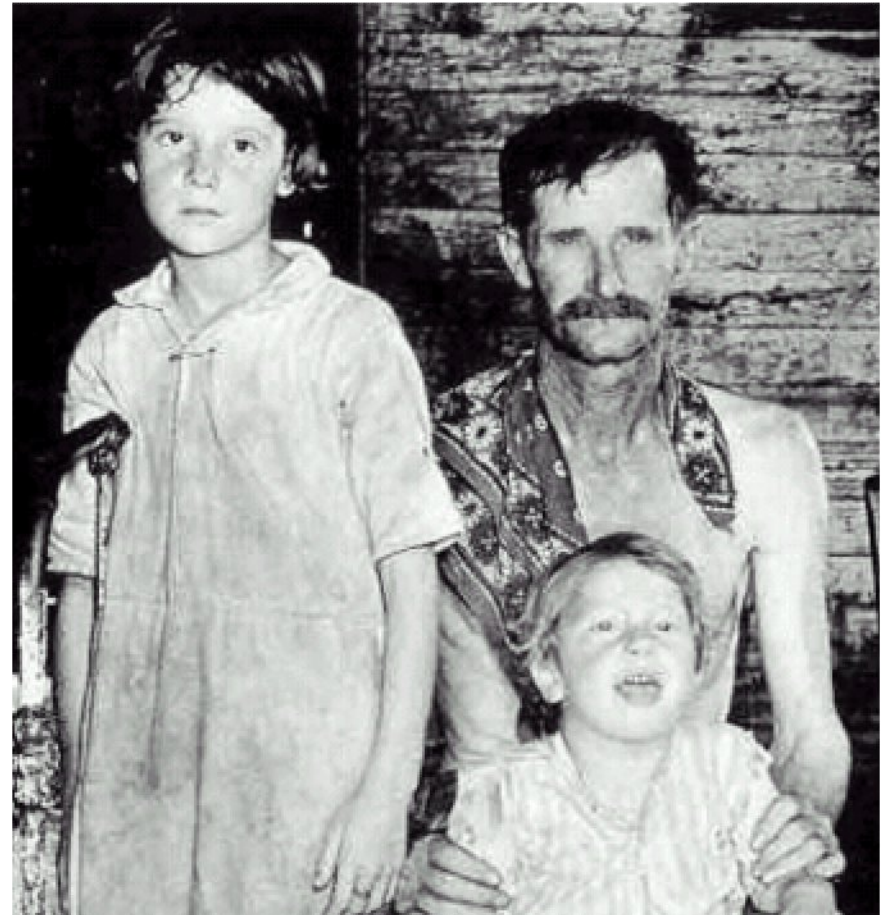


But did Hoover really believe in a
“hands-off”
free market philosophy?



Hoover did take action to
intervene in the economy,
but it was
too little too late-

Hoover
dramatically
increased
government
spending for
relief,
doling out millions
of dollars to
wheat and cotton
farmers.




Within a month
of the crash,
Hoover met with
key business
leaders to urge
them to **keep
wages high,**
even though
prices and
profits
were falling.



The greatest mistake of the Hoover administration was passage of the **Smoot-Hawley Tariff**, passed in 1930.

(It came on top of the Fordney-McCumber Tariff of 1922, which had already put American agriculture into a tailspin.)



The most protectionist
legislation in history,
the **Smoot-Hawley Tariff**
Act of 1930
raised tariffs on
U.S. imports up to 50%.

Officials believed that **raising trade barriers** would force Americans to buy more goods at home, which would keep Americans employed.

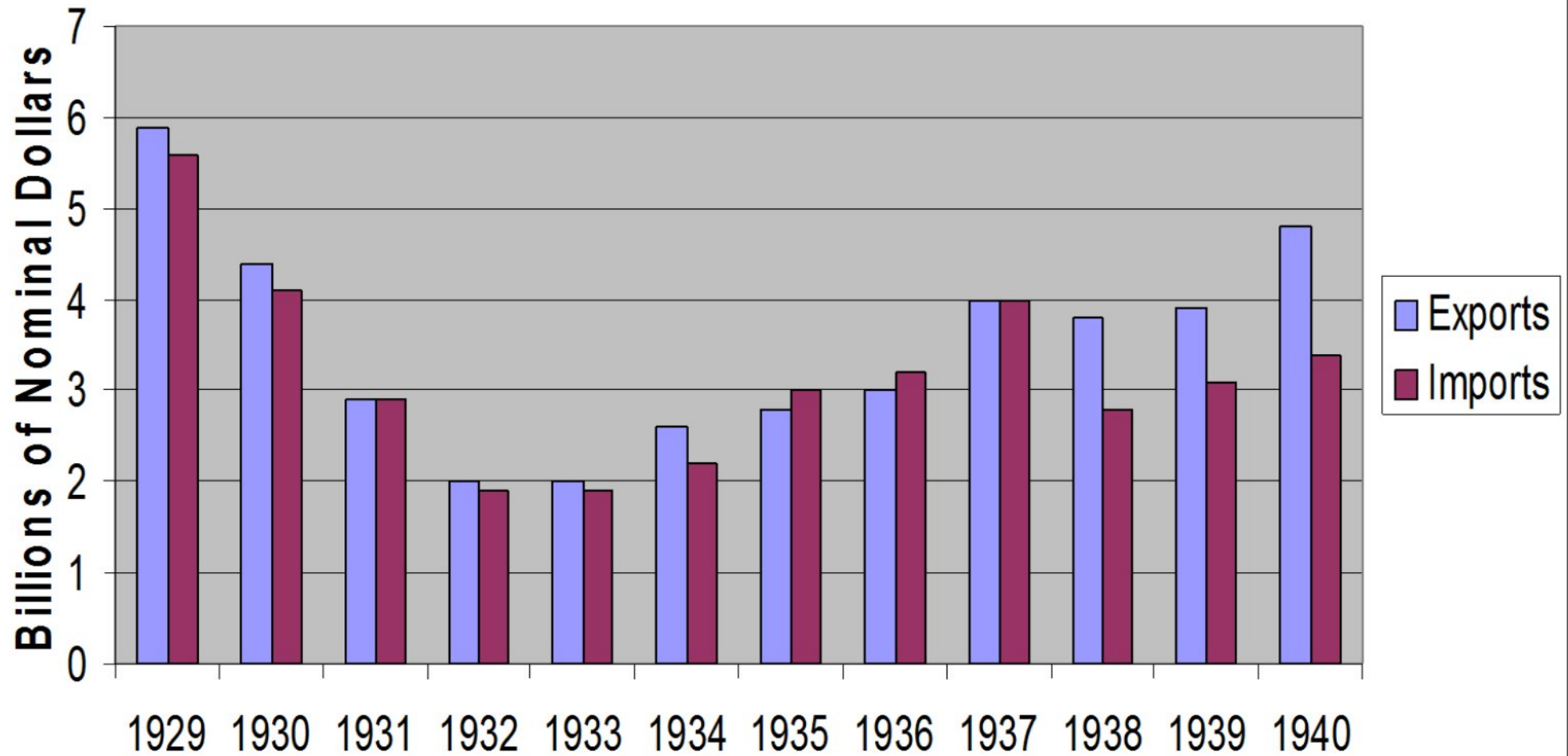


But they ignored
the principle of
international trade-
it is a **two-way** street;

If foreigners can't sell
their goods here,
they will shut off our
exports there!



Smoot Hawley Tariff of 1930 and Trade Reform Act of 1934





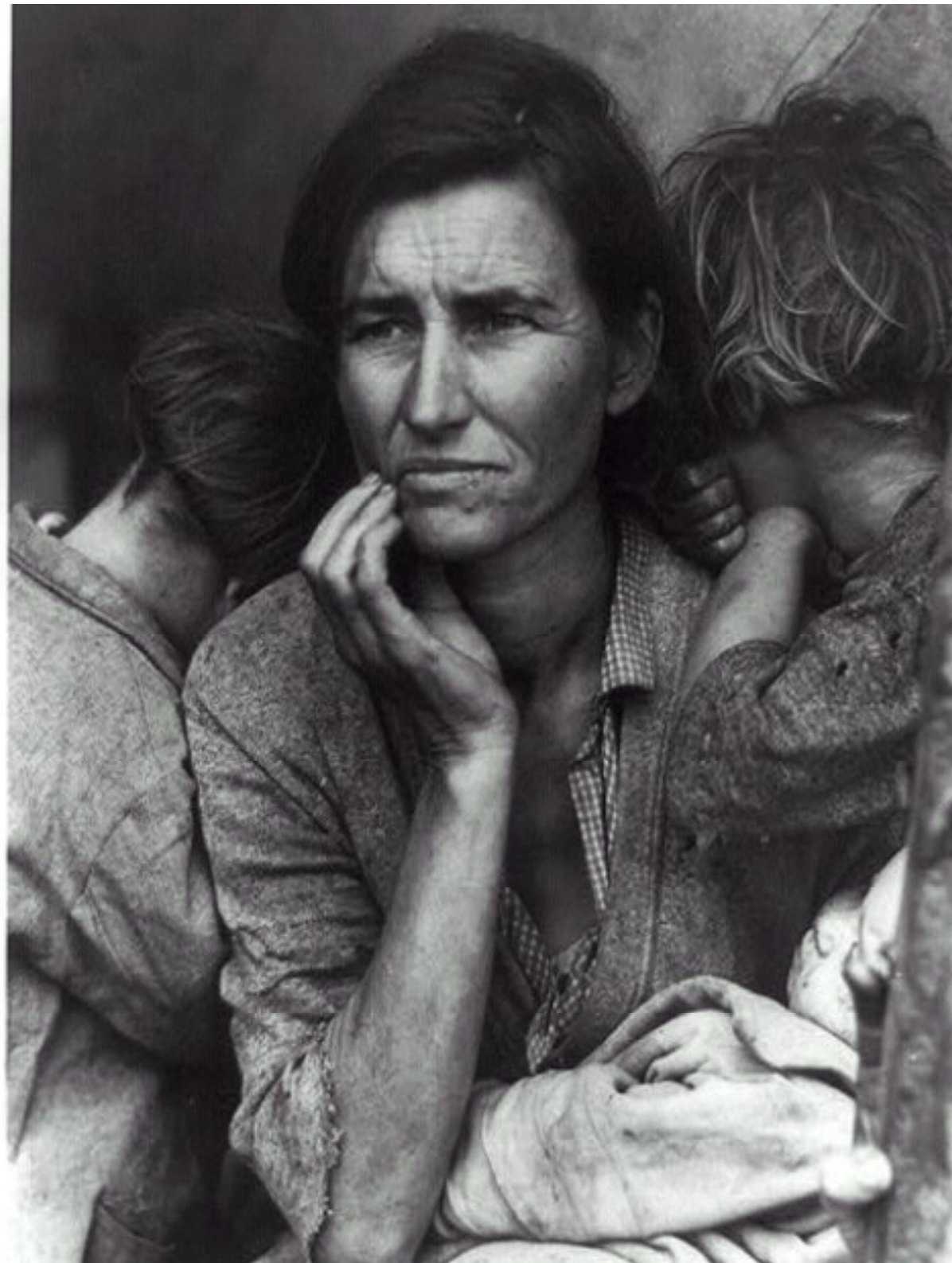
**It virtually closed our
borders to foreign goods
and ignited a vicious
international trade war.**



Europe had debts from World War I and Germany had reparations to pay.

Foreign nations curtailed their purchase of Americans goods.

**For example,
American
farmers lost
1/3
of their
market.
Farm prices
plummeted and
thousands
of farmers
went bankrupt.**





To compound the effects of the economic slump, farmers would experience one of the worst, longest **droughts** in history during the 1930s...

...creating a **"Dust Bowl"** of unproductive, eroded farmland.





- Black Sunday April 14, 1935. The dust storm that turned day into night. Many believed the world was coming to an end. Dodge City, KS

■ June 4, 1937, at Goodwell, OK





- Dust storm approaching Stratford, TX
April 18, 1935

“Fleeing a dust storm”

- Farmer Arthur Coble and sons walking in the face of the dust storm. April, 1936





■ Sometimes it was deep.

- Garden City, KS at 5:15 PM (*note the street lights photo 1*) and compare to photo 2. Photo 2 was just 15 min. later after the dust blotted out the sun.

Photo 1

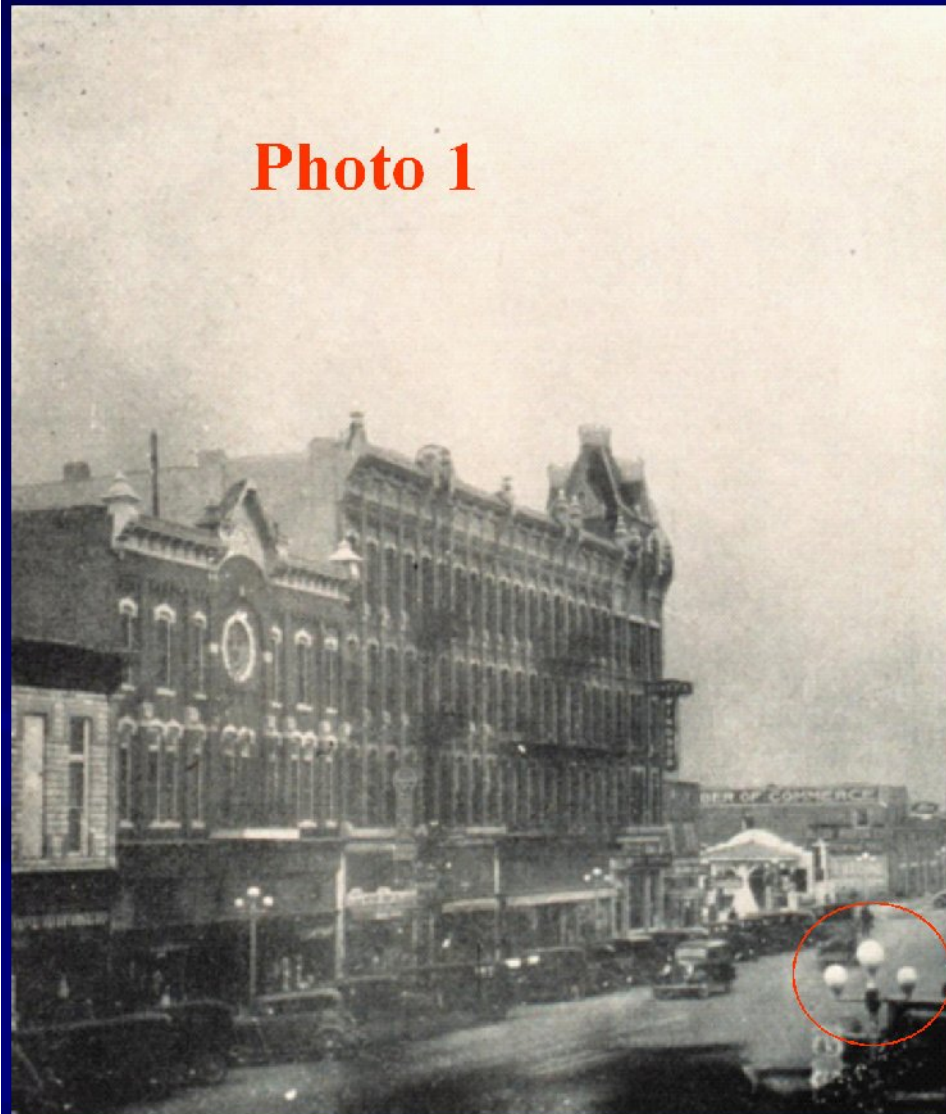


Photo 2





Three years later,
international trade
plummeted to 33% of its
1929 level.

The loss of such trade was
devastating and had ripple
effects, similar to the
bank failures.



Another aspect of the
Great Depression was
"deflation."

Prices for goods fell
30-40%
in the four largest
world economies -
the U.S., United Kingdom,
Germany, and France.



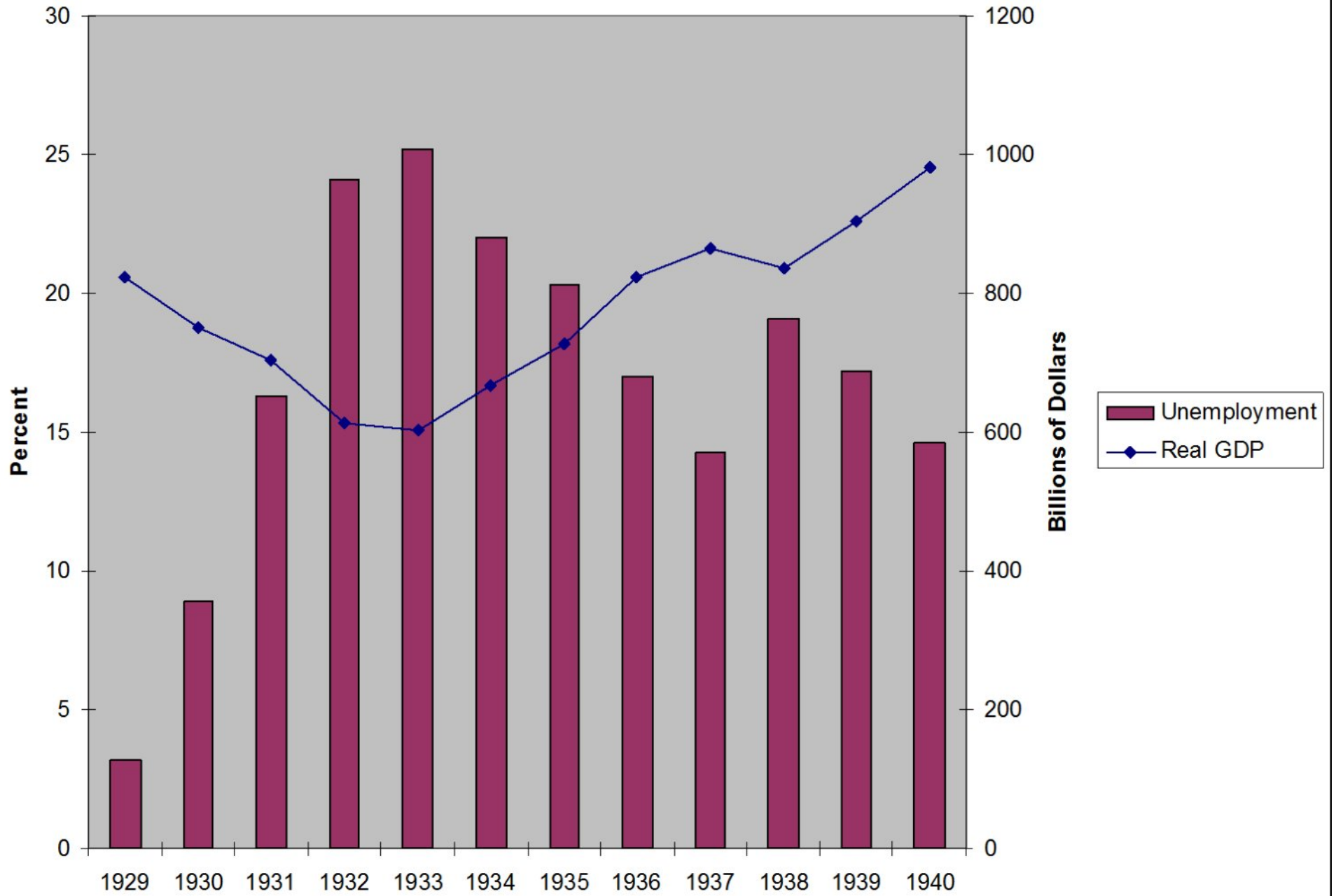
Deflation
occurs with
lower demand
and **falling prices.**



**Deflation caused
bankruptcies;**


**millions of people
and companies
were wiped out completely.**

Great Depression



More poor government policies...





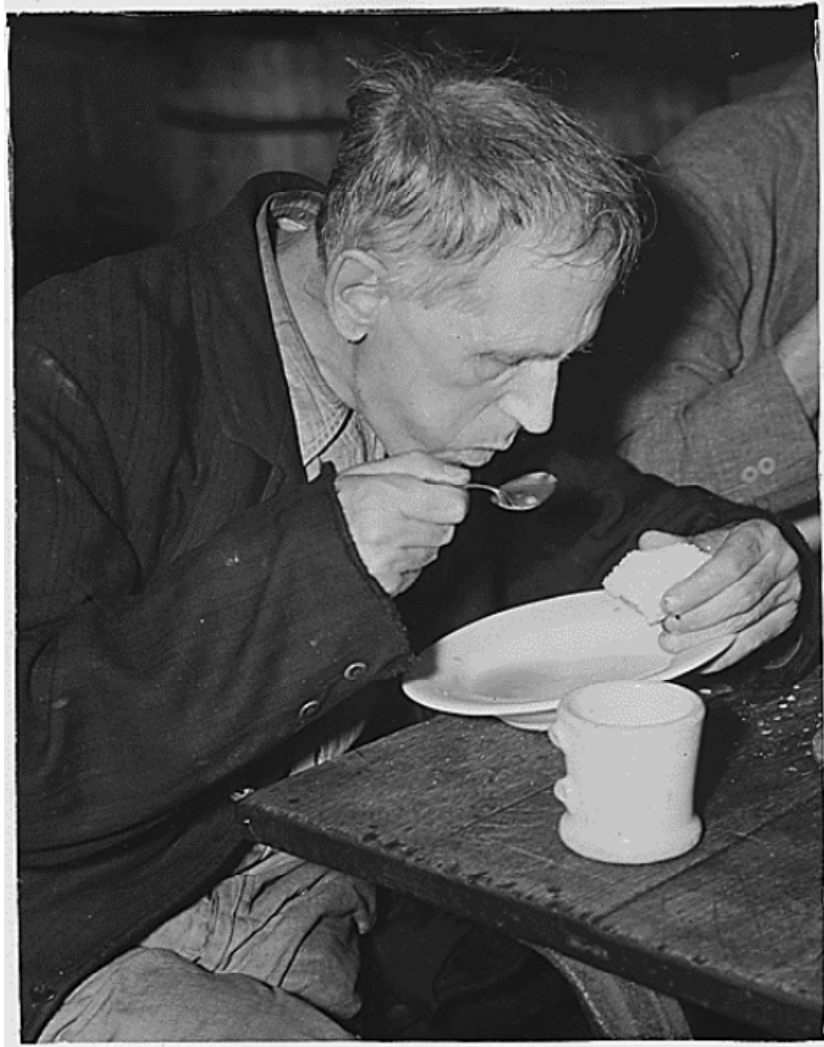
Because nothing else
seemed to be working,
the federal government
decided it was prudent
to **balance**
the federal budget.

President Hoover,
with the support of a
Democratic House of
Representatives, passed
the largest **peacetime tax
increase** in history,
the **Revenue Act** of 1932.



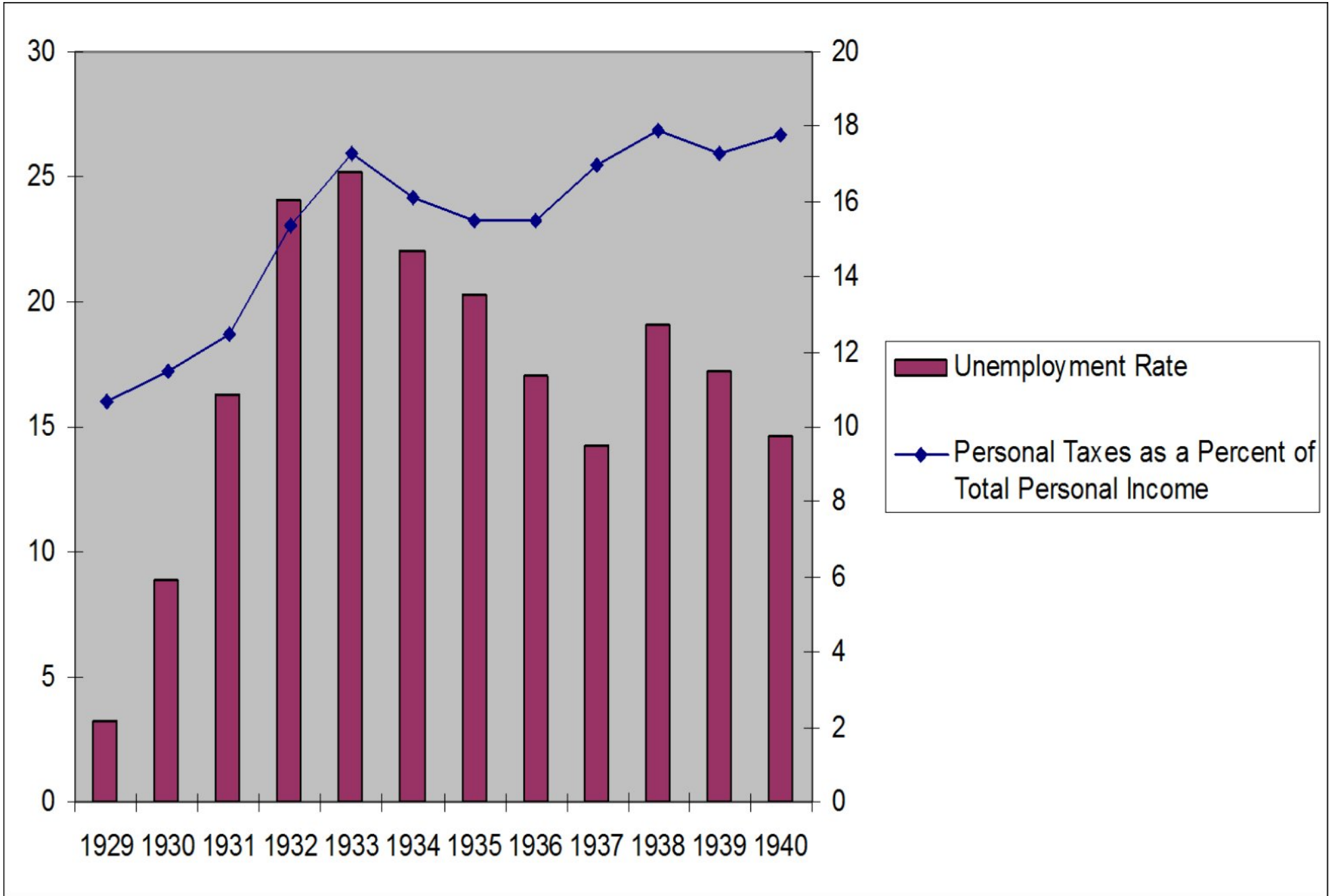
**Income taxes were raised from
1% to 4% at the low end
and from 23% to 63%
at the top of the scale.**

**Hoover's advisors hoped this tax
increase could cover the
mushrooming **deficit** of government
spending for relief.**

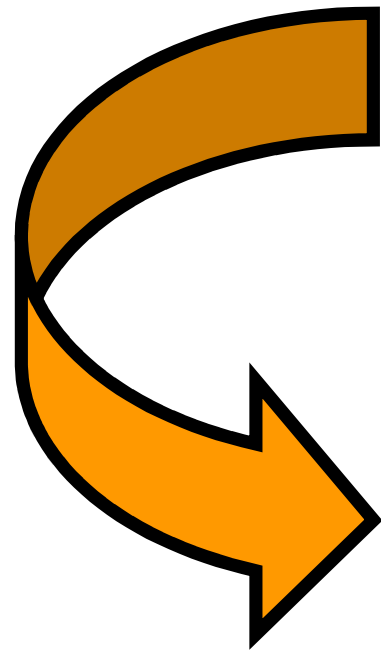


**But the decision
was disastrous.**

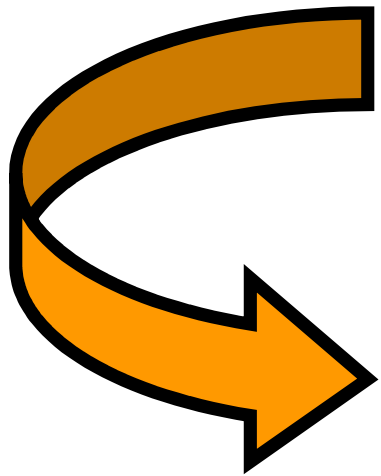
**The tax increase
took money out of
people's hands
which only
curtailed their
spending.**



In summary,



**The Smoot-Hawley Tariff
created trade wars
and worsened
world economic conditions.**



**Huge increase in taxes
hurt companies and
individuals.**



Let's Review the
MAJOR CAUSES
for the
Great Depression:



- 1. Overproduction**
(responding to high demand for goods)
- 2. Banking & Money Policies**
*(low interest rates,
buying on credit,
raise in interest rates,
low reserve rates for banks.)*
- 3. Stock Market Practices**
*(buying on margin,
bank loans for stock purchases)*
- 4. Political decisions**
*(Smoot-Hawley Tariff,
Increase Income Tax)*

CHANGE IN LEADERSHIP ?

Franklin Delano Roosevelt
won the presidential election
in a landslide.





However,
the platform
of the
**Democratic
Party**
was hardly
similar to the
policies he
would later
adopt...



Our greatest primary task is to put people to work. This is no unsolvable problem if we face it wisely and courageously. It can be accomplished in part by direct recruiting by the Government itself, treating the task as we would treat the emergency of a war, but at the same time, through this employment, accomplishing greatly needed projects to stimulate and reorganize the use of our natural resources.

...FDR, 1933.



It called for a

- * reduction in federal spending,
- * balanced federal budget,
- * end to the farm relief programs, and the
- * removal of government from areas of private enterprise!

Crisis continued to grip the banking industry when the new President took office in March of 1933.



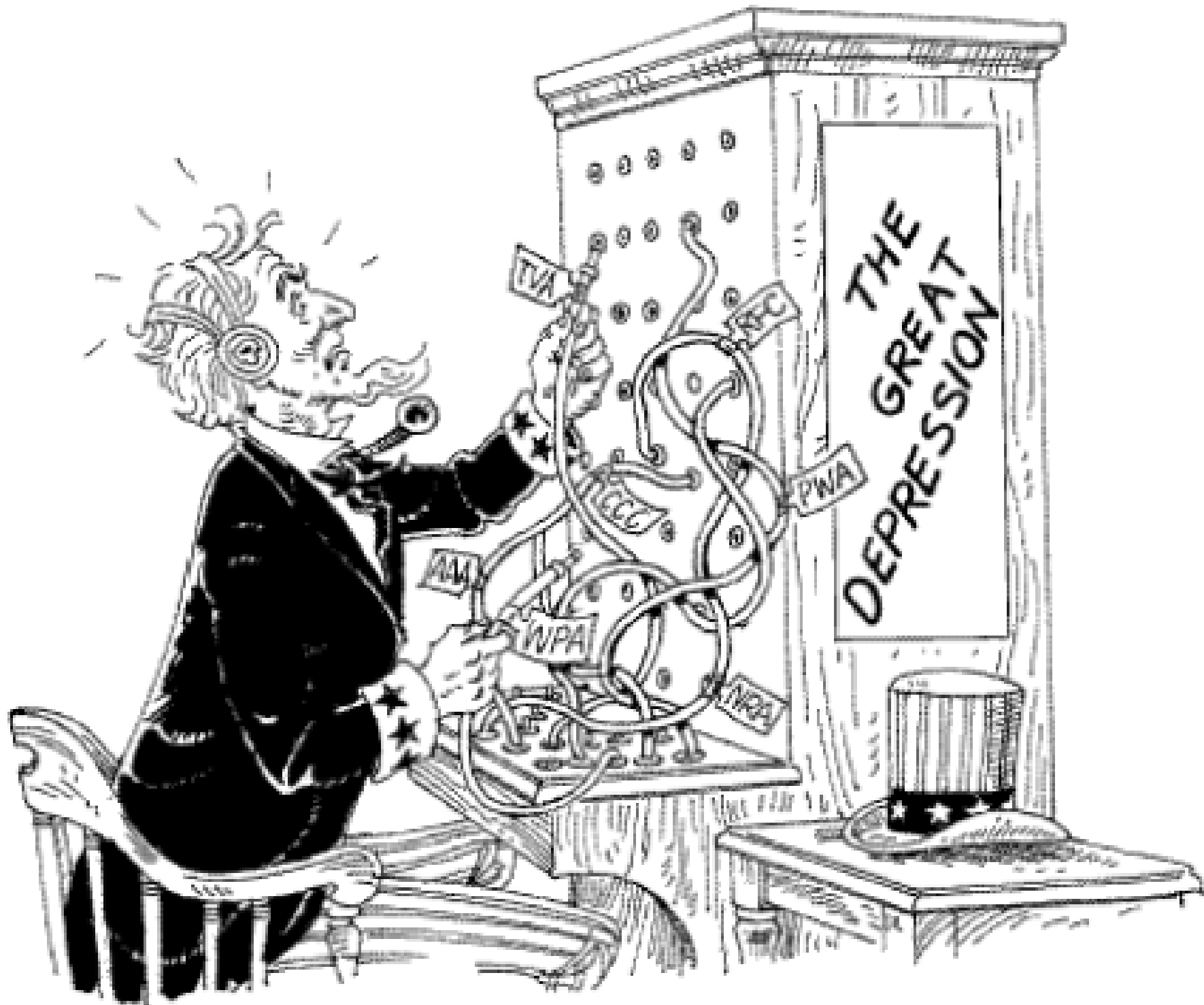


Roosevelt's action to close the banks and declare a "national banking holiday" is still hailed as a necessary action of government intervention in economic affairs.



Other initiatives targeted during the first 100 days focused on "3Rs" -

Relief, Recovery, & Reform.



For example, in order to bring about relief, FDR created quick, short-term jobs, such as the **Civilian Conservation Corps** where unemployed young men were put to work.



FDR created two types of **recovery** in his **New Deal** plan:

In **business recovery**, the work week was reduced to 30 hours per week, industries drew up codes of fair competition, & each business joined a trade association.



Where did
this **new**
philosophy
adopted by
FDR
come
from?

Who was John Maynard Keynes?

- Father of the "New Economics"
- Advocated government spending to "prime the pump" during periods of economic distress. According to Keynes, **government intervention** is often necessary to promote economic stability.
- FDR's ideas were based upon Keynesian theory.





According to the economic theory, the U.S. follows the principles of a **MARKET** economy (allowing businesses and individuals the freedom to make their own economic **choices**.)

**A Market system is driven
by competition in the
marketplace,
entrepreneurship,
and private ownership
of property.**





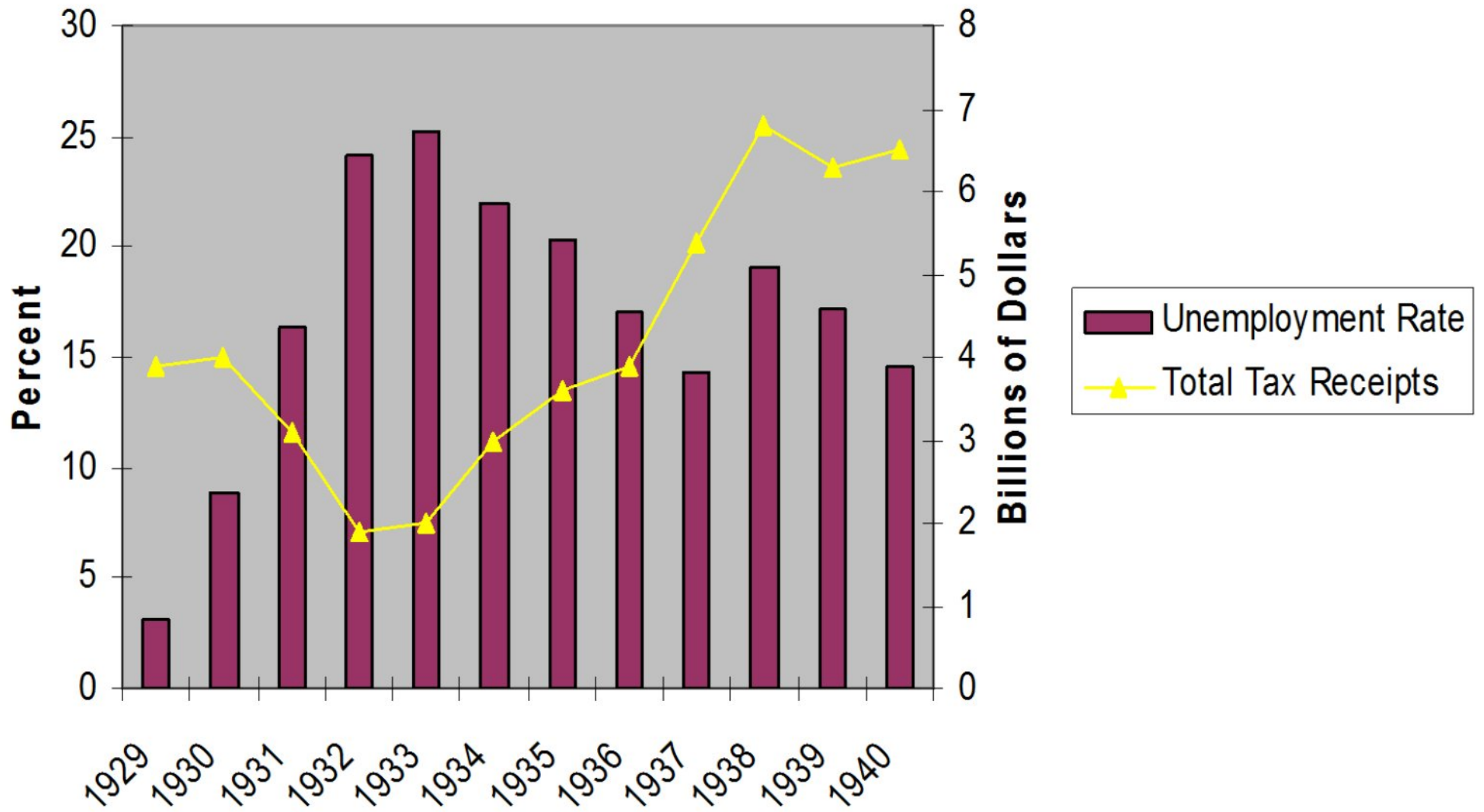
The primary tools used by the government to manage the economy are **fiscal policy** and **monetary policy**.



Fiscal Policy=
regulating the
nation's **taxing** and
spending levels.

("Priming the Pump")

The Federal Government Response



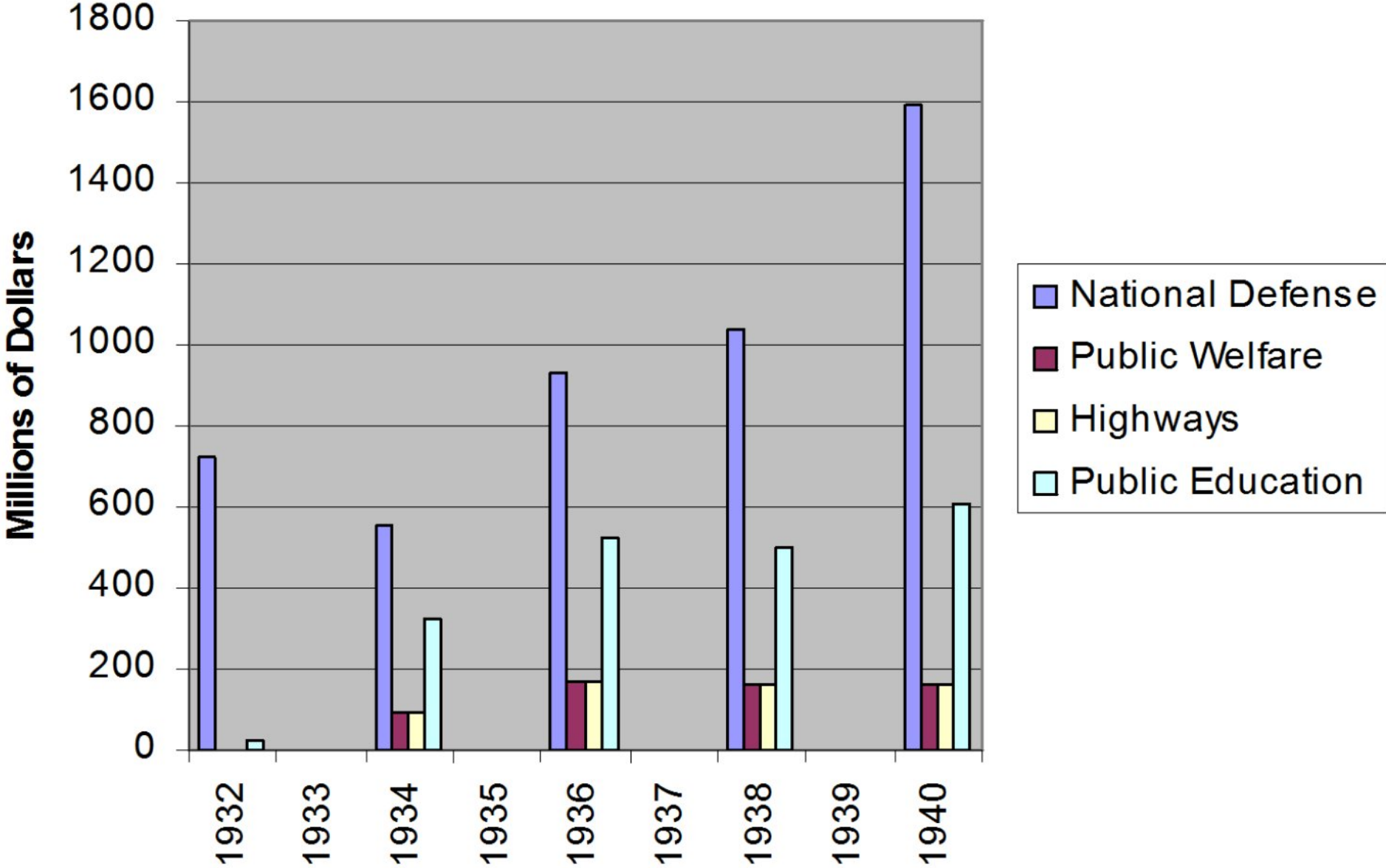
"Priming the Pump"

meant that government itself should start spending in order to start the economy growing again.

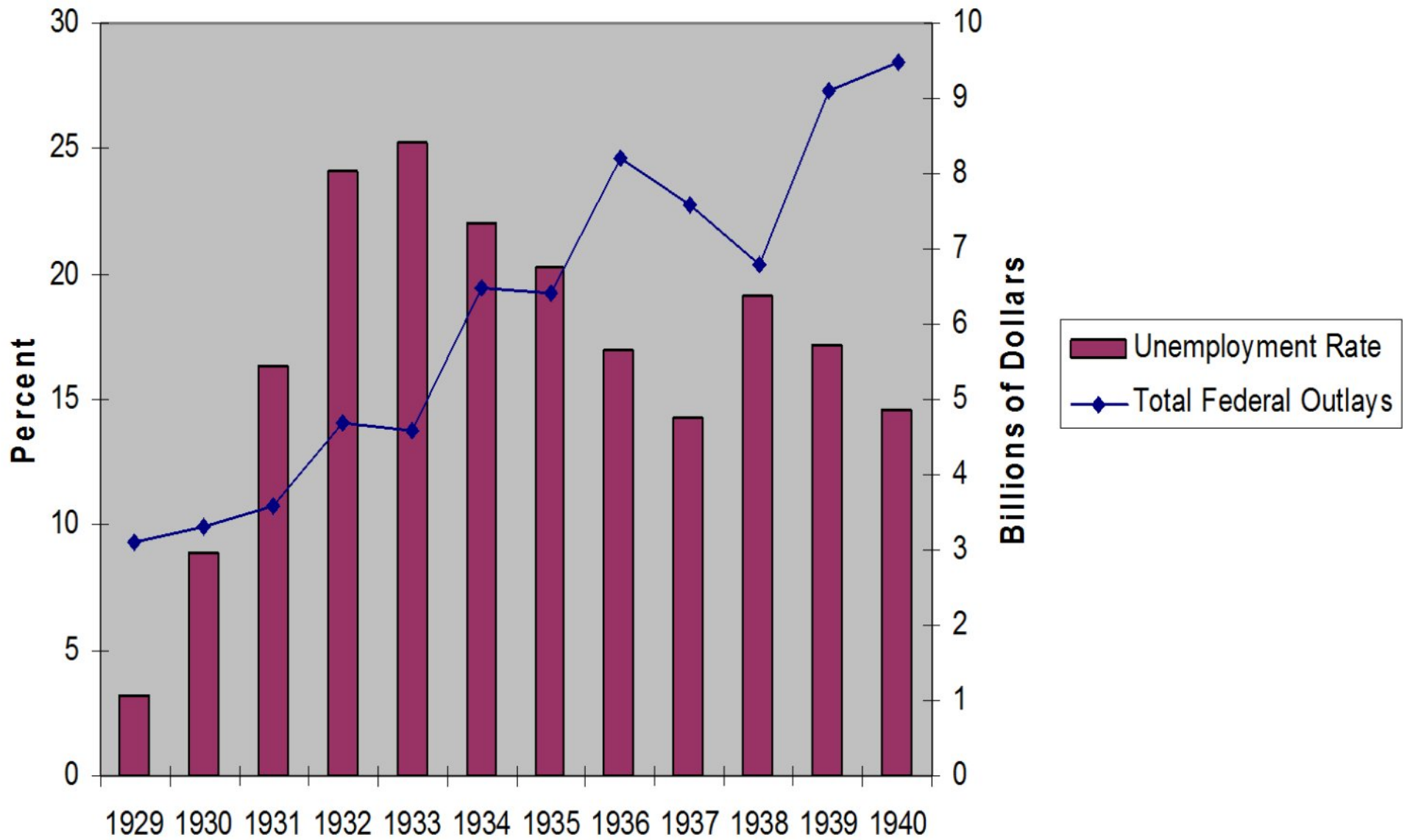
Keynes noted that even deficit spending by the government might be appropriate policy in certain circumstances.



Federal Government Expenditures

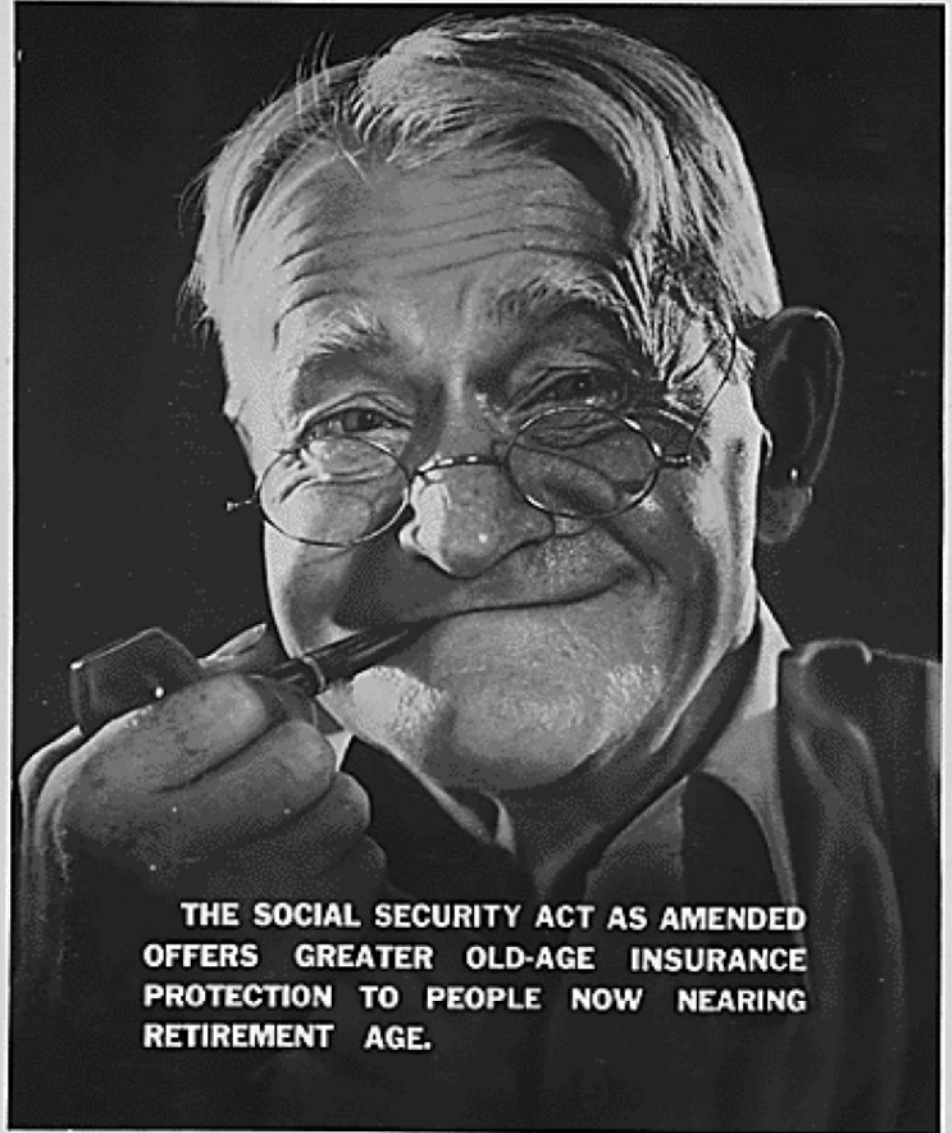


Federal Government Reponse



Other fiscal policies of FDR's include the creation of a **Social Security tax...**

**MORE SECURITY FOR
THE AMERICAN FAMILY**



**THE SOCIAL SECURITY ACT AS AMENDED
OFFERS GREATER OLD-AGE INSURANCE
PROTECTION TO PEOPLE NOW NEARING
RETIREMENT AGE.**

**FOR INFORMATION WRITE OR CALL AT THE NEAREST FIELD OFFICE OF THE
SOCIAL SECURITY BOARD**



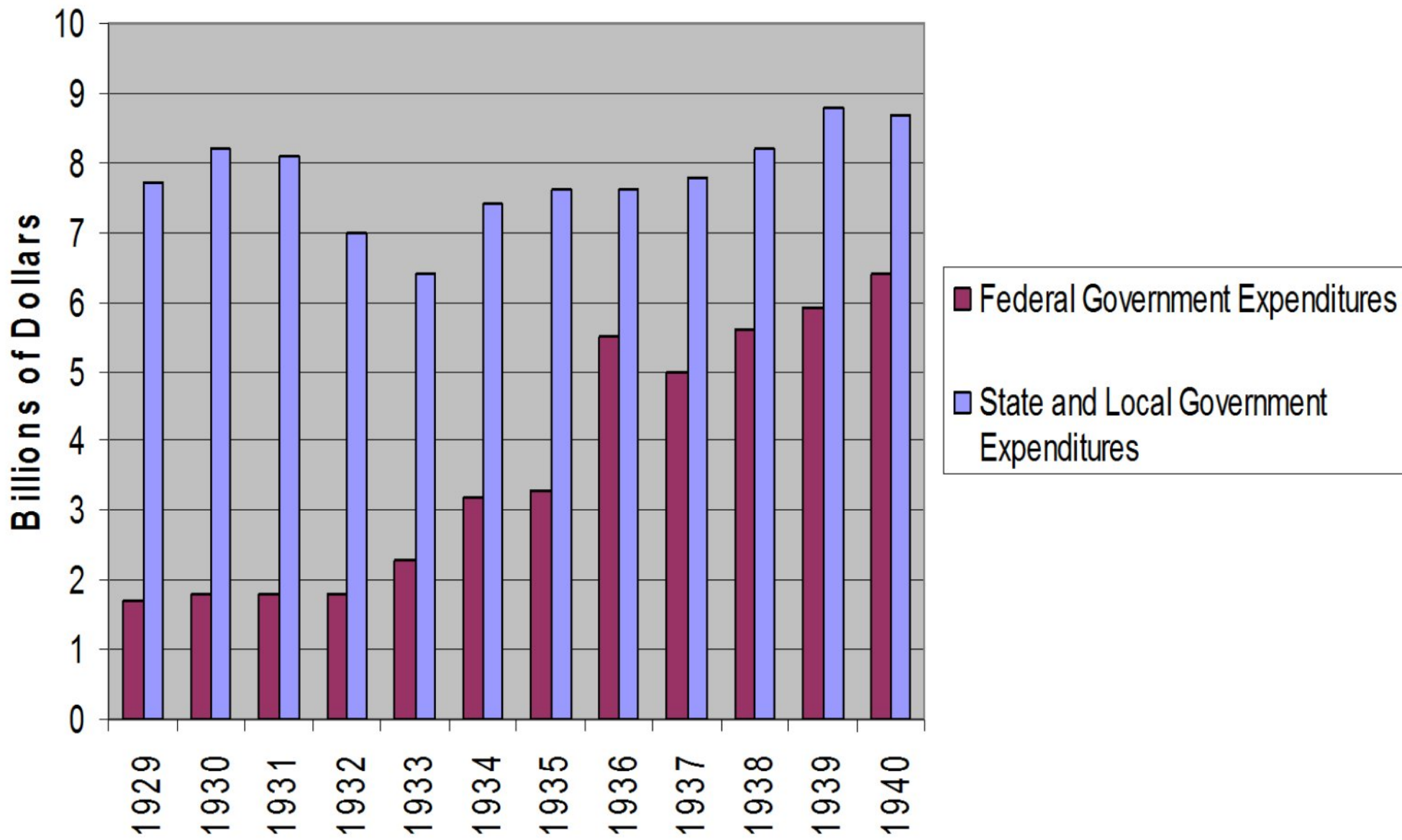
... and the
Agricultural Adjustment Act.

For example, to raise the price of agricultural products, the AAA attempted to reduce overproduction by paying farmers to destroy some of their crops.





**Between 1933 and 1936,
government expenditures
rose by more than 83%
and the deficit
skyrocketed.**





ROOSEVELT'S
RECONSTRUCTION
PROGRAM

UNEMPLOYMENT RELIEF
EMERGENCY
JOBS MEASURE

RELIEF
TARIFF
TAXATION
FARM
RELIEF

INTERNATIONAL
TRADE



BALANCE THE
BUDGET
WAR
DEBTS

DEMOCRATIC
CONGRESSIONAL
MAJORITY

FEDERAL
PATRONAGE
DINNER
BASKET
UNDERNEATH
NOODLE

ECONOMY
MEASURES

BANKING



Another tool for the
U.S. government is
"Monetary Policy" and
is conducted by the
Federal Reserve
System, a quasi-
government agency.

Monetary Policy
is the deliberate
regulation of the
nation's
money supply
and **interest rates.**





There is a **direct relationship** between the nation's money supply and the level of business activity.

If the **supply of money** and **credit increases too rapidly**, the result will be a period of rising prices known as **inflation**.





During **inflationary** periods,
the **purchasing power** of
the dollar falls,
meaning that people get
less for what they spend.

It is the role of the **Federal Reserve** to watch the supply of money in circulation, altering it when necessary to avoid rapid inflation.



FDR worked with two types of reform for monetary policy:

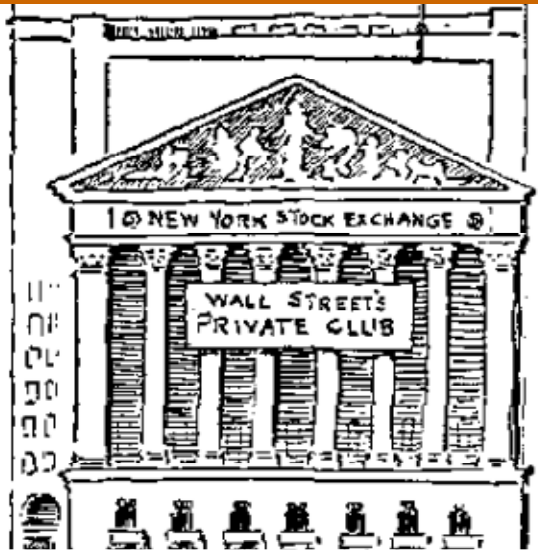
He wanted to stabilize both the stock market & the banking system.



The *Securities & Exchange Commission* (SEC) was created to regulate the stock market.



1929



1933



**The Federal Deposit
Insurance Corporation
(FDIC) was created
to insure individual
deposits at banks.**



Eventually, the economy showed some signs of life.





**Unemployment dropped to
18% in 1935,
but three years later
returned to 20%.**

**But the stock market
continued to slump through
1938...**

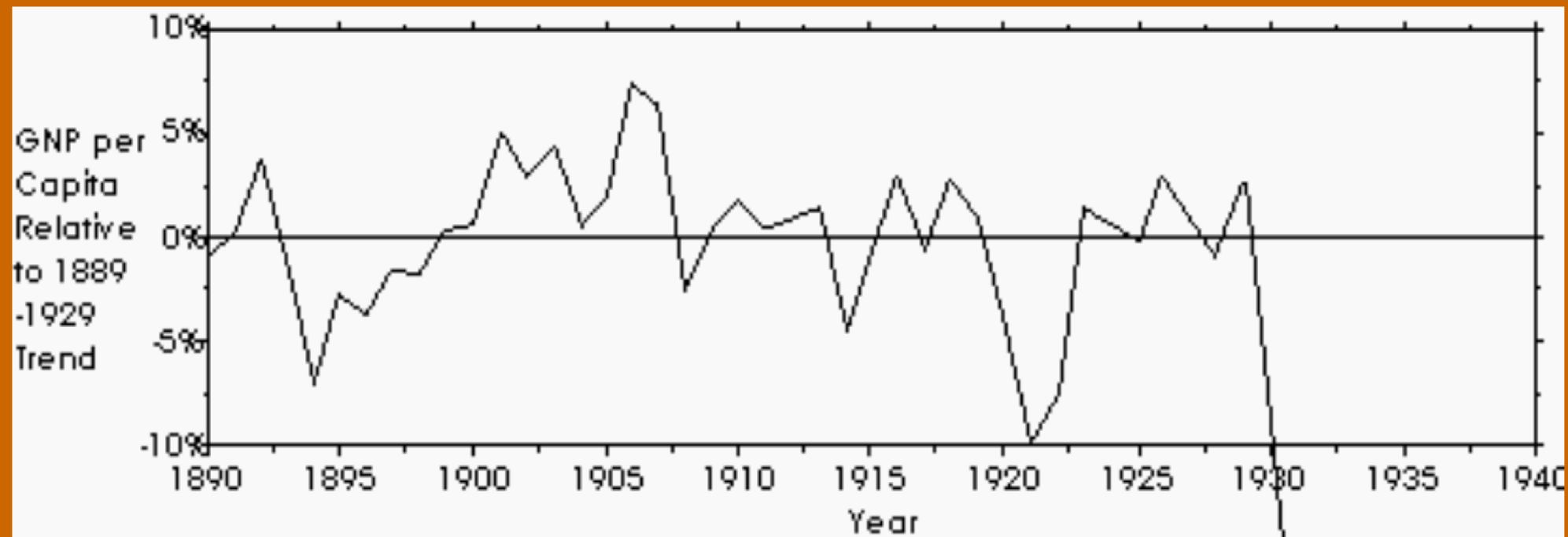


**On the eve of America's
entry into World War II
and 12 years after the
stock market crash of
Black Tuesday,
ten million Americans
were still jobless.**

Along with World War II
came a **revival of trade**
with America's allies.
Government investment in
war-related businesses
fueled a powerful
post-war boom.

And the Great Depression
finally ended.







*Did the Great Depression
Forever Change the
American Economic Policy?*

- *What is the role of the
government
in preventing (or solving)
economic downturns?*

Recall FDR's New Deal (1933-36)

1. Banking Act: FDIC
2. Federal Farm Mortgage Corporation
& Home Loan Corporation
3. Agricultural Adjustment Act
4. TVA
5. Public Works Administration
6. Works Project Administration
7. Securities Act
8. National Industry Recovery Act
9. Social Security Act
10. Wagner Act
11. Fair Labor Standards Act