Introduction

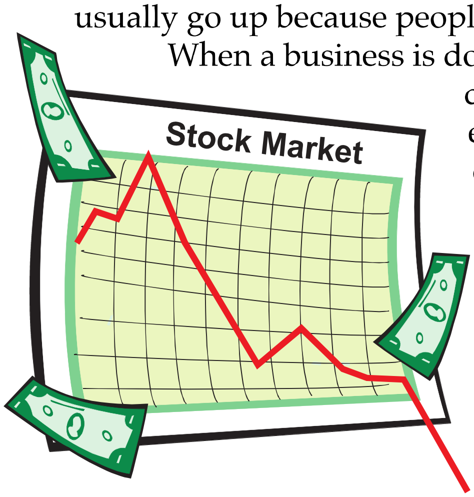
During the 1920s, government leaders and bankers encouraged the growth of new businesses and industries. Owners and investors in industry and many skilled workers prospered. Others, however, did not fare as well. Farmers and unskilled workers had difficulty earning enough to support their families. Then, in 1929, even those who had prospered during the 1920s began to lose their wealth as the entire country experienced hard economic times.

The Great Depression

The **Great Depression** in the United States started in 1929. An **economic depression** is when a country has little business activity. Factories do not produce many goods, and unemployment is high. Because people have very little money to spend on goods, businesses further reduce their production. The Great Depression was the worst depression in the history of the United States. It began in October of 1929—known as **Black Tuesday**—when the stock market crashed.

The Stock Market Crash

A **stock exchange** is a place where people buy and sell stock, or shares of ownership in a company. When a business is doing well, its stock prices usually go up because people want to own a share of the company. When a business is doing poorly, its stock prices usually go down. People also buy stocks in order to earn a share of the profit earned by that company. Buying and selling stocks is commonly known as "playing the stock market" or "investing in the stock market."



In the summer of 1929, many businesses began to lose money because they could not sell their goods. Stock prices continued to rise. Many Americans continued to borrow money from banks to buy stocks, which is known as *buying on margin*. People thought that businesses would recover and begin to make money.

Suddenly, in October of 1929, stock prices rapidly dropped. People realized that companies were not going to recover from their slumps. This caused a panic. Everyone wanted to sell his stock, but nobody wanted to buy, thus lowering stock prices. People said the stock market had *crashed*. The stock market crash triggered the beginning of the Great Depression.

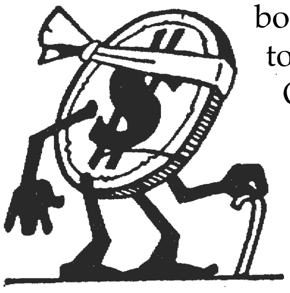
Causes of the Great Depression

What caused the Depression? **Economists** offered several explanations for the economic depression. Economists study the ways people make their living and the production and sales of goods and services. They are interested in workers' incomes and their ability to make purchases. Economists differed on the causes for the Depression, but most agreed there was no single reason or explanation for the Great Depression.

The Business Cycle

Some economists thought the Depression was part of a **business cycle**. A business cycle is a set of economic events that recur over time. Economists believed that, in industrial nations, business experienced good times followed by bad times, or depression. First, factories had a **surplus**, or produced too many goods, in the good times. Then, they stopped production until all the surplus goods were sold. When they stopped production, they had to fire workers, who then had no income to spend. Without any money, workers could not buy any goods and business would have to fire more workers. The business cycle would lead to a surplus of goods with few people able to buy them.

Excessive Borrowing

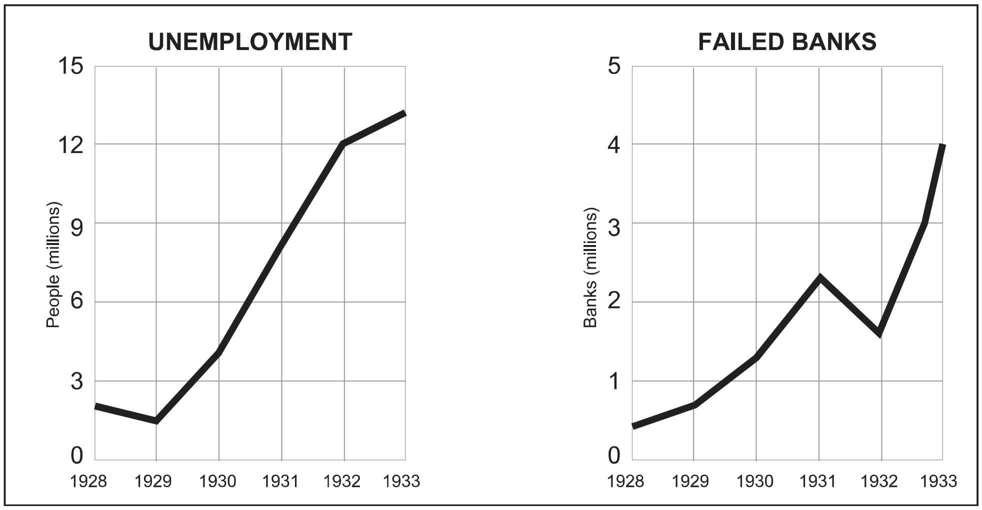


Some economists blamed the Depression on excessive borrowing. Many workers did not have enough money to buy factory goods, so they began buying on credit. Others, such as businessmen, borrowed money from banks to buy stocks on *margin*. During the 1920s, people had gone into serious debt. They did not have enough money to pay their debts or buy new items. Consequently, they simply stopped buying goods, and stopped paying off their loans.

The Banking Industry Fails

During the 1920s, American banks grew in size as workers began making more money and depositing their earnings in banks. Some banks used their clients' funds to make bad business investments. By 1932 many banks had gone out of business. People who had savings in those banks lost all their money. Other banks failed because people rushed to withdraw their money because they no longer trusted banks.

Depression—Financial Collapse in the United States, 1928-1933



Millions Unemployed

Whatever the reasons for the Great Depression, by 1930, four million people were out of work. A year later, eight million people were out of work. By 1932 the number had risen to 12 million. Many who had jobs only held part-time jobs. People were losing their homes and farms, and many were actually going hungry. Some organized **hunger marches** to show the government how desperate they were.

Homelessness was widespread and large shantytowns made of cardboard and scraps sprang up on the outskirts of cities. These shack villages were nicknamed *Hoovervilles* because many people blamed *President Herbert C. Hoover* for the Great Depression. Some people resorted to selling things they owned, or stealing. Some even committed suicide.

Reaction of Government

President Herbert Hoover

President Herbert C. Hoover took office in 1929, the year of the stock market crash. He thought the Depression would be over quickly, and so he did nothing to help those who were out of work and had no money. Some members of Congress, however, wanted the federal government to give food and clothing to the unemployed.

President Hoover was against the idea of direct government relief to the people. He argued that giving relief to the needy was the duty of state governments and charities. He feared people would become weak if they received help from the federal government. Hoover believed people were responsible for taking care of themselves. His way of thinking is known as **rugged individualism**.

During his term, however, President Hoover realized that the federal government would have to provide aid to those hurt by the Depression. So the President and Congress set up several programs to help the needy, although funds were not usually given directly to individuals.

The President and Congress developed the **Federal Farm Board**. The Board bought the crops farmers could not sell. Hoover also helped failing industries. Along with Congress, he started the **Reconstruction Finance Corporation**. It loaned money to businesses. Hoover thought if businesses had enough money, workers would be rehired. And if workers had money, they would buy goods and the Depression would end.

Hoover and Congress also set up the **Federal Home Loan Bank Act**. This act helped people pay their mortgages so they would not lose their homes. Finally, he started a program to hire people to work on **public works projects**. In the public works project, government paid people to work in jobs on property owned by the government. The government spent two billion dollars to pay people to work on roads, buildings, and other public jobs. By providing jobs, the government programs helped people earn money. People could then spend their earnings on goods. It was hoped that the increased demand for goods would help businesses expand and set the nation on the road to recovery.