The Nation's Sick Economy

Economic Troubles in the Horizon

Industries in Trouble

- Key basic industries, such as railroads, textiles, and steel were barely made a profit.
- Railroads lost business to new forms of transportation (trucks, buses, and automobiles).
- Mining and lumbering, which had expanded during the war, were no longer in high demand.
- Coal mining was especially hard-hit because of competition from new forms of energy, including hydroelectric power, fuel oil, and natural gas.
- The boom industries of the 1920s—automobiles, construction, and consumer goods—weakened because of the decline in the building of new homes.

Farmers Need a Lift

- Demand for crops fell after the war, and crop prices declined by 40% or more.
- Farmers increased production in the hopes of selling more crops, but this only depressed prices further.
- Between 1919 and 1921 annual farm income declined from $10 billion to just over $4 billion.
- Farmers who had gone into debt had difficulty in paying off their loans. Many lost their farms when banks foreclosed and seized the property as payment for the debt.
- Congress tried to help out farmers with a piece of legislation called the **McNary-Haugen Bill**. This called for federal **price-supports** for key products such as wheat, corn, cotton, and tobacco. The government would buy surplus crops at guaranteed prices and sell them on the world market. But President Coolidge vetoed the bill twice.

Consumers Have Less Money to Spend

- As farmers' incomes fell, they bought fewer goods and services.
- By the late 1920s,Americans were buying less—mainly because of rising prices, stagnant wages, unbalanced distribution of income, and overbuying on credit in the preceding years.
- Production had also expanded much faster than wages, resulting in an ever-widening gap between the rich and the poor.

Living on Credit

- Americans bought goods on **credit**— they paid in installments (usually in monthly payments) that included interest charges.
- Many people then had trouble paying off their growing debts. Faced with debt, consumers cut back on spending.

Uneven Distribution of Income

- During the 1920s, the rich got richer, and the poor got poorer.
- Between 1920 and 1929, the income of the wealthiest 1% of the population rose by 75%, compared with a 9% increase for Americans as a whole.
- More than 70% of the nation's families earned less than $2,500 per year, then considered the minimum amount needed for a decent standard of living.

Hoover Takes the Nation and the Stock Market

- In the election of 1928, Republican candidate Herbert Hoover ran against Democrat Alfred E. Smith.
- Hoover, the Secretary of Commerce under Harding and Coolidge, was a mining engineer from Iowa who had never run for public office. Smith was a career politician who had served four terms as governor of New York.
- Hoover won because he could point to years of prosperity under Republican administrations since 1920.
- The Stock Market's **Dow Jones Industrial Average** was the most widely used barometer of the stock market's health. The Dow is a measure based on the stock prices of 30 representative large firms trading on the New York Stock Exchange.
- Through most of the 1920s, stock prices rose steadily and Americans rushed to buy stocks and bonds.
- By 1929, about 4 million Americans—or 3% of the nation's population—owned stocks.
- People were engaging in **speculation**—that is, they bought stocks and bonds on the chance of a quick profit, while ignoring the risks.
- Many began **buying on margin**—paying a small percentage of a stock's price as a down payment and borrowing the rest.

The Stock Market Crash and Bank and Business Failures

- On October 29, 1929 —now known as **Black Tuesday**—Americans began to frantically sell their stocks.
- The number of stocks dumped that day was a record 16.4 million. Additional millions of stocks could not find buyers.
- People who had bought stocks on credit were stuck with huge debts as the prices plummeted, while others lost most of their savings.
- By mid-November, investors had lost about $30 billion, an amount equal to how much America spent in World War I.
- The crash alone did not cause the Great Depression, but it hastened the collapse of the economy and made the depression more severe.
- After the crash, many people panicked and withdrew their money from banks. But some couldn't get their money because the banks had invested it in the stock market.
- In 1929, 600 banks closed. By 1933, 11,000 of the nation's 25,000 banks had failed.
- Between 1929 and 1932, the gross national product—the nation's total output of goods and services—was cut nearly in half, from $104 billion to $59 billion.
- Approximately 90,000 businesses went bankrupt.
- Unemployment leaped from 3% (1.6 million workers) in 1929 to 25%(13 million workers) in 1933.

In Dies Irae (Day of Wrath) artist James N. Rosenberg illustrates his perception of the events of October 29, 1929.


The Des Moines Register
STOCKS SHRINK 10 BILLIONS
GREAT FALLS TRIBUNE
STOCK MARKET IN SEVERE COLLAPSE
Wilbur Questions Walter Wheeler on Power Plans
FINANCIERS UNABLE TO CHECK FRANTIC SELLING STAMPEDE
DELAY FRONT STREET PAVING UNTIL 1930
HARRISBURG TELEGRAPH
Governor Says Counties Should Decide Machine Vote
MARKET LOSSES REACH NEW LEVEL
MARGINAL ACCOUNTS ARE WIPED OUT IN WILD ORGY OF WALL STREET SELLING
San Mateo Times
TRANS-AMERICA PRICE CRASHES
Daily News Standard
Market Bottom Reached
Market Leaders Surge Ahead; Renewed Confidence By All
EL PASO HERALD
STOCK PRICES RALLY SHARPLY
Snowstorm Halts Search For Plane
STEAMER SINKS WITH FROM 10 TO 15 ABOARD
Ysleta Boy Dying From Injuries
The Des Moines Register
STOCKS OFF 10 BILLIONS MORE
Bankers Believe Securities Have 'Turned the Corner'
BROOKLYN DAILY EAGLE
STOCKS SINK DESPITE BANKS; RALLY
Wilkes-Barre Record
PRICES AGAIN COLLAPSE ON STOCK MARKET
Wilkes-Barre Record
FRANTIC STAMPEDE ON MARKET CHECKED
THE MUNCIE MORNING STAR
STOCK PRICES COLLAPSE AGAIN
Western Air Liner With Passengers Lost
THE ST. LOUIS STAR
STOCKS CRASH AGAIN IN 16,410,030-SHARE DAY

Worldwide Shock Waves

- The United States was not the only country gripped by the Great Depression.
- Much of Europe, for example, had suffered throughout the 1920s. European countries trying to recover from WWI.
- The Great Depression compounded these problems by limiting America's ability to import European goods. This made it difficult to sell American farm products and manufactured goods abroad.
- In 1930, Congress passed the **Hawley-Smoot Tariff Act**, which established the highest protective tariff in United States history. It was designed to protect American farmers and manufacturers from foreign competition.
- Many countries retaliated by raising their own tariffs. Within a few years, world trade had fallen more than 40 percent.

Causes of the Great Depression

- Although historians and economists differ on the main causes of the Great Depression, most cite a common set of factors, among them:

1. tariffs and war debt policies that cut down the foreign market for American goods
2. a crisis in the farm sector
3. the availability of easy credit
4. an unequal distribution of income

- These factors led to falling demand for consumer goods, even as newly mechanized factories produced more products.
- The federal government contributed to the crisis by keeping interest rates low, thereby allowing companies and individuals to borrow easily and build up large debts.
- Some of this borrowed money was used to buy the stocks that later led to the crash.