Name ______________________

The Great Depression - What Crashed and Why?

By Toni Lee Robinson

The Great Depression was a very bad time for most Americans. Imagine putting your paycheck in the bank, only to have the bank go out of business the next day! Your paycheck and savings are gone. Then, imagine going to work the next week to find the door locked. Your workplace is out of business! You have no money. You have no job, no way of earning money. How would you pay rent or buy food?

This question faced many Americans during the Depression. The period from 1929-1941 was known as the Great Depression, the worst economic disaster in American history. Millions of people were out of work. Homes and farms were lost to foreclosure. People scrounged for any sort of work to feed their families.

How could this happen? The causes of the Depression developed over a period of many years, beginning as early as World War I. From 1914-1918, industry had picked up speed to meet the war demand. After the war, the boom had expanded. Factories found cheaper ways of manufacturing their wares. Working people were making higher wages.

The 1920s were one long surge of prosperity. The war was over. Life was good. Streams of goods poured out of the factories. Stores and showrooms were bursting with shiny luxuries. A new marketing tool, advertising, made products seem very attractive. People wanted to buy things.

It was a time tailor-made for consumer credit. Until now, families had waited and saved for big-ticket items like appliances and cars. But with the installment plan, a person had only to sign papers and make monthly payments. Almost anyone could drive a new car or bring home a gleaming new washing machine.

Working class families went into debt. In fact, a cycle of debt engulfed the economy. Working people saw the stock market as a sure route to wealth. Many bought their stocks and bonds on credit, or on margin. They were gambling that prices would rise. The stocks could then be sold, the loan paid off, and a profit made.

Rich people had seen their wealth increase by leaps and bounds during the "Roaring '20s." They poured money into the stock market. More people than ever before bought into the booming market, hoping they could reap big profits. This speculation was the basis for much of the boom.

Farming seemed to be the only sector that didn't share in the good times. During World War I, European farms had become battlefields. To supply food for the rest of the world, American farmers had been pushed to produce more and more. At war's end, European farmers returned to the land and the market was soon flooded with farm products. American farmers were left with piles of surplus crops and no market.

The world market left its mark on the American economy in other ways. Congress had set tariffs, or taxes on imported products. The tariffs made it very hard for other countries to sell their goods in the U.S. With the loss of American sales, European nations struggled to pay their war debt. They struck back by setting their own tariffs.

In the U.S., factories churned out goods at a frantic rate. Speculation kept driving up prices. The rich got richer by sixty-five percent, but working class income went up only eight percent. Wealth became more lopsided. Wages weren't keeping up with inflation, and families now spent most of their money repaying debts. New products sat on the shelves.

The economy was propped up, like a clown on stilts, by credit and speculation. At the end of the '20s, the boom began to falter. First, investors worried, and then they began to sell. Prices plunged as traders dumped millions of shares. On October 29, 1929, more than sixteen million shares were sold. The stock market crashed. The day came to be known as Black Tuesday.

The stock market crash set the United States on a downward slide. Soon the entire system had collapsed. Businesses couldn't sell their goods and closed by the thousands. Banks lost money when businesses couldn't repay loans.

Panicked crowds rushed to draw their money from banks, but there was no money. Millions of people, their savings lost, were also unemployed. The outlook was grim. Many wondered how the U.S. would ever recover.

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Questions

1. Why do you think the time from 1929-1941 is called the Great Depression?

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_____ 2. The economy was propped up, like a clown on stilts, by credit and speculation. This sentence is an example of:

A. a simile
B. hyperbole
C. foreshadowing
D. a synonym

_____ 3. How did people feel about consumer items in the '20s?

A. They thought factory products were junk.
B. They wanted to buy things.
C. They felt they should wait until they had saved enough to buy the items.
D. They didn't want to get caught up in material possessions.

4. Explain the installment plan.

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_____ 5. What did it mean to buy stocks "on margin"?

A. The stocks were bought at high prices and sold for very little.
B. Buy and sell orders to traders were written in the margins of documents.
C. Stocks were bought on credit and the loan paid off when the stock was sold.
D. The stocks were bought at marginal prices and sold for big profits.

6. Why were farmers having a hard time while everyone else was prospering?

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_____ 7. What is a tariff?

A. a tax on foreign goods
B. a production subsidy
C. a stiff fine for violating trade laws
D. a production quota

8. Describe the effects of Black Tuesday on America.

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