

U.S. History A – Great Depression Notes

Why was the Great Depression a disaster waiting to happen?

While we have spoken about the 20's as a time of great prosperity, it was a tad deceptive. Problems lie under the surface that would not be dealt with by the conservative administrations of Harding, Coolidge and Hoover.

The Great Depression did not begin in 1929 with the fall of the over inflated stock market. In fact the Depression began ten years earlier in Europe. As the depression raged on in Europe American's believed they would be immune to its effects. Isolationist sentiments and conservative doctrine held that the less we had to do with Europe the better. As a result American polices never addressed the possibility of the United States entering a depression as well. Actually American policies actually contributed to our entry into the depression.

The early warning signs first came in the agricultural sector. Farmers continued to produce more and more food due to technological advances like the tractor. As production grew farm prices dropped. It was simply a matter of supply and demand. Framers reacted in the traditional manner and boosted production even further. Prices plummeted. Farmers began to default on their loans and the banks foreclosed. To make matters worse the central part of the nation was hit with a terrible drought. Farmers were devastated. The drought turned that portion of America into what was called "**The Dustbowl.**"

In the 1920's American economic policy was laissez faire. Businesses were left alone and for sometime things appeared to fine. American businesses reported record profits, production was at an all time high. The problem was that while earnings rose and the rich got richer, the working class received a disproportionately lower percentage of the wealth. This **uneven distribution of wealth** got so bad that 5% of America earned 33% of the income. What this meant was that there was less and less real spending. Despite the fact that the working class had less money to spend businesses continued to increase production levels.

Purchasing dropped internationally as well. Since Europe was in a depression people there weren't buying as much as businesses had estimated. Then the Fordney McCumber Tariff and the Hawley Smoot Tariff raised tariff levels to as much as 40%. Europe was already angered at US foreign actions responded with high tariffs of their own. **International trade was at a standstill.**

At this point you should be asking the question "If no one buying and companies were increasing production levels, wasn't there going to be a problem?" BINGO!!! The problem is known as **overproduction**. American businesses were producing far more than could be consumed. The result was lost profits and eventually debts. After a while many companies went out of business. Why would these companies continue to overproduce? There are several reasons. Some were managed poorly. Others were part of holding companies that placed layers and layers of companies, each relying on the others production levels like a pyramid. If one company in the pyramid reported lower production levels the others fell off and it looked bad. In many cases however crooked

company owners reported earnings that were higher than they were actually were in order to drive up the stock price.

As a result of World War I America had emerged as the worlds leading creditor nation. Foreign powers owed the United States and its companies about a billion dollars annually. With declining trade in America, a demand for reparation from the United States and the continuing European depression this **debt went unpaid**.

Throughout this period of time Americans (and it seems this included Harding, Coolidge and Hoover.) Truly felt they would be prosperous forever. They didn't see or were unwilling to see the warning signs. With this confidence Americans began to increasingly invest in the stock market. The market began an unprecedented rise in 1928. By September 3rd 1929 the market reached a record high of 381. Then the decline began. Many didn't think it would last but on October 24th panic selling began as 12.8 million shares changed hands. Then came **Black Tuesday**, October 29th 1929. The market plummeted. By July the Dow reached a low of 41.22. Millions upon millions of dollars had been lost. Many who had bought on margin (credit) had to pay back debts with money they didn't have. Some opened up the windows and jumped to their deaths. The depression had arrived.

Banks that had invested heavily in the stock market and real estate lost their depositors money. A panic ensued as people lined up at the banks to get their money. Unfortunately for many the money just wasn't there. As the amount of money in circulation dropped **deflation** hit. Money was worth more but there was little money to be had. The fed which had the power to put more money into circulation did nothing (laissez faire). Workers were fired as thousands of businesses closed down. **Unemployment rose to 25-35%**. In Toledo Ohio fully 80% of the workers were unemployed! Real estate investments flopped because with deflation a building that was once worth ten million was now worth five. The mortgage and debt stayed the same but the income was gone. Banks foreclosed on loans and took possession of worthless properties that nobody could afford to buy. Between 1930 and 1932 over 9000 banks failed.

With all of this there Hoover announced to Americans that they should "stay the course" that the ship would right itself. After all, Hoover was a self made man, a rugged individualist. By the time Hoover recognized he had to do something it was too little and much too late.