

PrepUS History  
Unit 7 - Changing America  
The Great Depression

### **The Stock Market Soars**

When the stock market has a long period of rising stock prices it is called a bull market. The bull market of the 1920s convinced many to invest in stocks. By 1929, approximately 10 percent of American households owned stocks.

Before the late 1920s, stock prices generally reflected their true values. In the late 1920s, however, many investors failed to consider a company's earnings and profits. Buyers engaged in speculation, or betting the market would continue to climb, thus enabling them to sell stock and make money quickly.

Many investors bought stocks on **margin**, making only a small cash down payment (as low as 10 percent of the price). With \$1,000, an investor could buy a sum of \$10,000 worth of stock. The remaining \$9,000 came as an interest-bearing loan from the stockbroker. Quick profits were possible if stock prices kept rising, but problems came when prices began to fall. To protect a loan, a broker could issue a margin call, demanding the investor repay the loan at once.

### **The Stock Market Crash**

The bull market lasted only as long as investors continued putting new money into it. In September 1929, the market peaked. Prices then began an uneven downward slide. As investors decided the boom was over, they sold more stock, causing prices to decline even further.

On Monday, October 21, 1929, the comedian Groucho Marx was awakened by a telephone call from his broker. "You'd better get down here with some cash to cover your margin," the broker said. The stock market had plunged. The dazed comedian had to pay back the money he had borrowed to buy stocks, which were now selling for far less than he had paid for them. Other brokers made similar margin calls. Customers put stocks up for sale at a frenzied pace, driving the market into a tailspin.

On October 24, a day that came to be called **Black Thursday**, the market plummeted further. Marx was wiped out. His earnings from plays and films were gone, and he was deeply in debt. His son recalled his visit to the brokerage firm, as Groucho spotted his broker:

"He was sitting in front of the now-stilled ticker-tape machine, with his head buried in his hands. Ticker tape was strewn around him on the floor, and the place . . . looked as if it hadn't been swept out in a week. [Groucho] tapped [him] on the shoulder and said, 'Aren't you the fellow who said nothing could go wrong—that we were in a world market?' 'I guess I made a mistake,' said Mr. Green. 'No, I'm the one who made a mistake,' said [Groucho]. 'I listened to you.'"  
*Groucho, 1954 ~* ~ from *Life with*

The following week, on October 29, a day that was later dubbed **Black Tuesday**, prices took the steepest dive yet. That day, more than 16 million shares of stock were sold, and the value of the industrial index (a measure of the value of leading industrial companies) dropped by 10 percent. By mid-November, the market price of stocks had dropped by more than one-third. Some \$30 billion was lost, a sum roughly equal to the total wages Americans earned in 1929. Although the stock market crash was not the major cause of the Depression, it undermined the economy's ability to overcome other weaknesses.

### **Banks Begin to Close**

The market crash weakened the nation's banks in two ways. First, by 1929, banks had lent billions to stock speculators. Second, many banks had invested depositors' money in the stock market, hoping for high returns. When stock values collapsed, banks lost money on their investments, and speculators defaulted on their loans. Having suffered serious losses, many banks cut back drastically on loans. With less credit available, consumers and businesses were not able to borrow as much money, sending the economy into a recession.

Some banks could not absorb the losses they suffered and had to close. The government did not insure bank deposits, so if a bank failed, customers, including even those who did not invest in the stock market, lost their savings. As a growing number of banks closed in 1929 and 1930, a severe crisis of confidence in the banking system further destabilized the economy.

News of bank failures worried Americans. Some depositors made runs on banks, thus causing the banks to fail. A **bank run** takes place when many depositors decide to withdraw their money at the same time, usually out of fear that the bank will collapse. Most banks make a profit by lending money received from depositors and collecting interest on the loans. The bank keeps only a fraction of depositors' money in reserve. Usually, that reserve is enough to meet the bank's needs. If too many people withdraw their money, however, the bank will collapse. By 1932, about one in four banks in the United States had gone out of business.

### **The Roots of the Great Depression**

The stock market crash played a major role in putting the economy into a recession. Yet the crash would not have led to a long-lasting depression if other forces had not been at work. The roots of the Great Depression were deeply entangled in the economy of the 1920s.

### **The Uneven Distribution of Income**

Overproduction was a factor leading to the onset of the Great Depression. More efficient machinery increased the production capacity of factories and farms. Most Americans did not earn enough to buy up the goods they helped produce. Manufacturing output per person-hour rose 32 percent, but the average worker's wage increased only 8 percent. In 1929 the top 5 percent of all American households earned 30 percent of the nation's income. In contrast, about two-thirds of families earned less than \$2,500 a year, leaving them with little disposable income.

Farmers, in particular, did not share in the prosperity of the 1920s, as many had gone into debt to buy land or equipment during World War I, when demand for their products was high. When prices fell, they tried to produce even more to pay their debts, taxes, and living expenses. Prices dropped so low that many farmers went bankrupt and lost their farms.

During the 1920s, many Americans had purchased high-cost items, such as refrigerators and cars, on the **installment plan**. Purchasers could make small down payments and pay the remainder of the item's price in monthly installments. Paying off such debts eventually forced some buyers to stop making new purchases. Because of the decrease in demand for their products, manufacturers in turn cut production and laid off employees.

The slowdown in retail sales echoed throughout the economy. When radio sales slumped, for example, orders for copper wire, wood cabinets, and glass radio tubes slowed. Montana copper miners, Minnesota lumberjacks, and Ohio glassworkers lost jobs. Jobless workers cut purchases, further reducing sales. This put even more Americans out of work. Unemployment insurance

was nonexistent. Many families had little or no savings. Lost jobs often meant dire circumstances. In 1930 alone, about 26,000 businesses failed.

### **The Loss of Export Sales**

Many jobs might have been saved if American manufacturers had sold more goods abroad. As the bull market of the 1920s sped up, however, U.S. banks made loans to speculators rather than loans to foreign companies. Loans from U.S. banks had helped European nations make war reparations and pay down war debts. They had also secured foreign markets for U.S. exports. Without these loans from U.S. banks, foreign companies purchased fewer American products.

### **Life During the Great Depression**

Large numbers of people lost their jobs and homes during the Depression. To help people escape their troubles, popular entertainment offered humorous and optimistic movies and radio programs. Novelists and photographers created more realistic portrayals of American life.

### **The Depression Worsens**

The Depression grew steadily worse. In 1930, across the nation, 1,352 banks suspended operations, more than twice the number of bank failures in 1929. In 1932 alone, some 30,000 companies went out of business. By 1933, roughly one-fourth of the workforce was unemployed.

### **Struggling to Get By**

The jobless often went hungry. When possible, they stood in breadlines for free food or lined up outside soup kitchens set up by private groups. People who could not pay their rent or mortgage lost their homes. Some, paralyzed by fear and humiliation, did not move and were evicted. Court officers ejected them and their belongings. Throughout the country, newly homeless people put up shacks on unused or public lands. They built shantytowns, which they called **Hoovervilles** after the president they blamed for their plight.

In search of work or a better life, many homeless, unemployed Americans began walking, hitchhiking, or, most often, “riding the rails” across the country. These wanderers, called **hoboes**, would sneak past railroad police to slip into open boxcars on freight trains. Hundreds of thousands of people, mostly boys and young men, wandered from place to place in this way.

The Depression also caused many immigrants to return to their native countries. In some cases, this **repatriation** was voluntary as jobs became scarce. In other cases, repatriation was forced. The federal government launched repatriation drives to send poor immigrants back to their home countries. It also stepped up efforts to deport immigrants who had violated the law. In the Southwest, federal officials rounded up Mexicans (often without regard to their citizenship status) and forcibly returned them to Mexico.

### **The Dust Bowl**

When crop prices dropped in the 1920s, farmers tried to make up the difference by planting more wheat. Then, a terrible drought struck the Great Plains, leaving the fields bare. The soil dried to dust. A vast “**Dust Bowl**” stretched from the Dakotas to Texas.

Winds blew the arid earth aloft, blackening the sky for hundreds of miles. Dust buried crops and livestock. Humans and animals caught outdoors sometimes died of suffocation when the dust filled their lungs. During most of the 1930s, an average of 50 dust storms a year hit the Plains.

Some Great Plains farmers managed to hold on to their land, but others were not as lucky. If their land was mortgaged, they had to turn the property over to the banks. Then, nearly penniless, many families headed west, hoping for a better life in California. Because many migrants were from Oklahoma, they became known as “**Okies**.” In California, their struggles continued:

“[They have] one-room shacks usually about 10 by 12 feet, have no rug, no water, no bed. In one corner there is a little iron wood stove. Water must be carried from the faucet at the end of the street.”

~ John Steinbeck, from *The Harvest Gypsies*, 1936 ~

### **Identify/Define**

1. What happened on Black Tuesday?

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2. What happened on Black Thursday?

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3. What was a breadline?

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4. What were shantytowns?

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5. What was a hobo?

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6. What caused the Dust Bowl?

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7. What were “Okies?”

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**Explain**

8. What economic choices caused the economy to become unstable in the late 1920s?

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9. How did the stock market crash trigger a chain of events that led to the Depression?

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10. What were the underlying conditions that led to the collapse of the U.S. economy?

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