

The Depression and the New Deal

Lesson 1 The Great Depression

ESSENTIAL QUESTION

Why do people make economic choices?

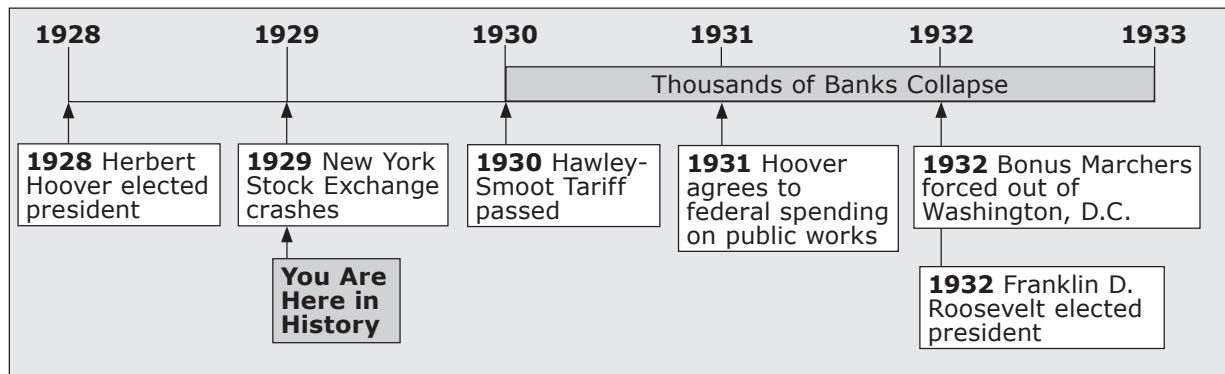
GUIDING QUESTIONS

1. *Why did the stock market crash?*
2. *How did the Great Depression bring hardship?*
3. *How did Hoover start to involve the government in the economic crisis?*

Terms to Know

invest spend money on something in the hopes of making more money in the future
stock exchange system in which shares, or part-ownership, of businesses are bought and sold
default fail to pay money that is owed
relief aid for the needy
public works projects such as highways, parks, and libraries built with public funds for public use

When did it happen?



What do you know?

In the first column, answer the questions based on what you know before you study. After this lesson, complete the last column.

Now...		Later...
	Why did people buy stock during the 1920s?	
	Why did some banks fail during the Great Depression?	
	What did President Hoover believe about how the economy should work?	

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The Stock Market Mania

In the 1920s the economy in the United States was strong. Many people had jobs. Leaders said everyone would prosper, or grow rich.

People thought one way to make a lot of money was to buy shares of stock. The **stock exchange** is a system of buying and selling shares of stock. Shares of stock are small parts of corporations. Buyers were **investing**. People bought stock at one price, for example, \$1. They expected the price to go up. Then they would sell the shares and get more back than they spent. Some people got rich this way.

Throughout the 1920s, prices for shares of stock went up and up. People also bought shares "on margin." That is, they borrowed money to buy stock.

In September 1929, some investors began to worry that stock prices would soon fall. They began to sell their stocks. The price of a share of stock began to drop.

Those who lent money to stock buyers began to worry that they might not get their money back. They asked people to pay back the money they had borrowed when they bought shares of stock "on margin."

The only way people could get that money quickly was to sell some of their stocks. People sold more and more. As they did so, the value of stocks went down. On October 24, 1929, 13 million shares were sold. The New York Stock Exchange closed for a few days. This stopped people from selling for those few days. The stock market had "crashed."

The Great Depression Begins

In the next two years, the nation went into a deep economic crisis. Companies made less. People bought less. They lost their jobs. The Great Depression had begun.

The stock market crash was not the only cause of the Great Depression. Some experts had noticed problems in the economy all through the 1920s. Wealth was not evenly divided among Americans.

Some Americans made a lot of money, but most did not. As a result, many people borrowed money from banks for things that they needed. They borrowed money to buy land, farm equipment, cars, or homes.

After the stock market crash, many people **defaulted** on their loans. They could not pay back money they had borrowed from the bank. When people defaulted, some



Explaining

1. Why did people invest their money in stocks?



Mark the Text

2. Draw a box around a date people will remember. Why is this date remembered?



Reading Check

3. What does buying stock "on margin" mean?



Understanding Cause and Effect

4. What happened when people defaulted on loans?

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Reading Check

5. Why did the Hawley-Smoot Tariff make the Depression worse?



Mark the Text

6. Underline the sentence that tells what some people did for food and where they lived.



Listing

7. Name two examples of public works.

banks went out of business. Thousands of banks closed between 1930 and 1933. Millions of people lost money.

In 1930, Congress placed a tariff, or tax, on imported goods. It was called the Hawley-Smoot Tariff. It made imported goods cost more. People bought fewer imported goods. Foreign countries raised their tariffs, or taxes, on American goods. They bought fewer American goods.

Farmers and manufacturers already had trouble selling their products. Some factories produced too much but sold very little. They did not need to make more products. The factories cut wages and laid off workers. Both foreign and American businesses were hurt.

By 1932, one-fourth of all American workers had no jobs. Those who had jobs worked fewer hours for less pay. People who had no jobs felt worthless. Some tried to shine shoes or sell apples to raise money.

People did not have enough food. Cities often had soup kitchens. People waited in line for bread, coffee, or a bowl of soup. People lost their homes. They sometimes built shacks. Villages of shacks were built. People called these villages "Hoovervilles." They were named for the president, Herbert Hoover. People all over the country wondered why the president was not doing enough to help.

Hoover Reacts to the Depression

President Hoover did not believe the government should be involved in the economy. He thought the economy would recover on its own. He asked business leaders not to cut production or wages. He also asked charities to help the needy. The number of people who needed help went up. The need for **relief** was far too great for the charities to handle.

Hoover's ideas included:

- Get business leaders and charities to help.
- Start a public works program.
- Set up the Reconstruction Finance Corporation

In 1931, Hoover finally knew things had gotten too bad. The government had to do something. He agreed to spend money on **public works** projects. These projects involved building public spaces such as highways, parks, and

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libraries. It seemed like a good idea, but state and local governments did not have money for these projects.

Hoover also asked Congress to create the Reconstruction Finance Corporation, or RFC. The RFC was unsuccessful. It would not loan money if there was too much risk involved.

The story of the Bonus Marchers turned many Americans against Hoover for good. Congress had promised veterans of World War I that they would get extra money in 1945. By 1932, thousands of veterans wanted to ask for the money sooner.

They called themselves the Bonus Army. They traveled to Washington, D.C., and camped near the city. They marched into Washington and demanded the bonus payment. Congress said no. Some veterans left, but about 2,000 stayed. President Hoover called in the Army to remove the veterans and their families. Many Americans were upset that the government had treated veterans so badly. They decided it was time to change the government.

//////////Glue Foldable here//////////

Check for Understanding

What was the difference between the 1920s and the 1930s?

What are two things Americans did to get money, food, and places to live in the 1930s?

**Reading Check**

8. How did Americans feel about the way Hoover treated the Bonus Army?



9. Place a two-tab Foldable along the dotted line to cover Check for Understanding. Write *Compare and Contrast Decades* on the anchor tab. Label the left tab *1920s America* and the right tab *1930s America*. On the front and back of the tabs, list words and phrases about each decade. Use your notes to complete the Check for Understanding.