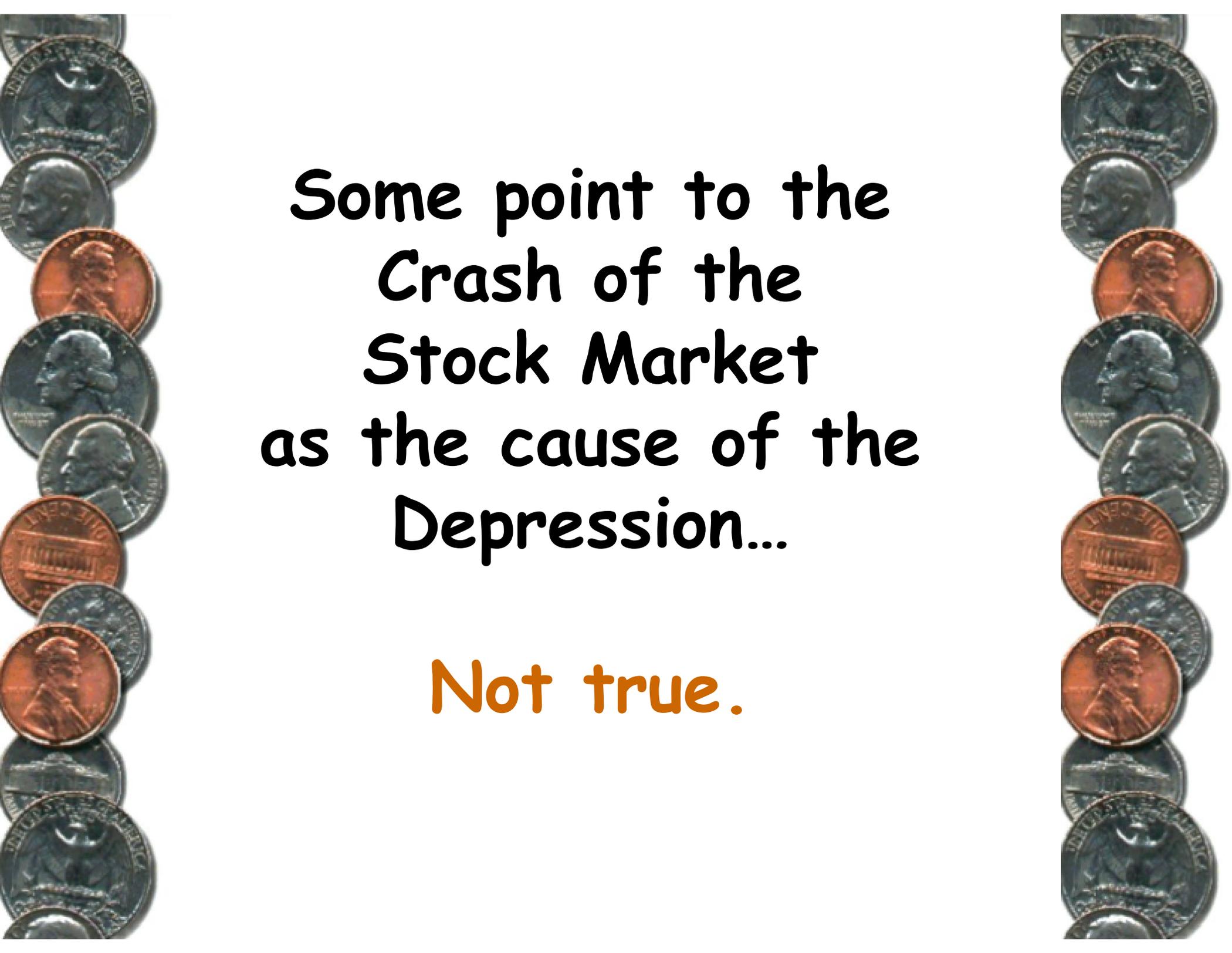


# Causes of The Great Depression



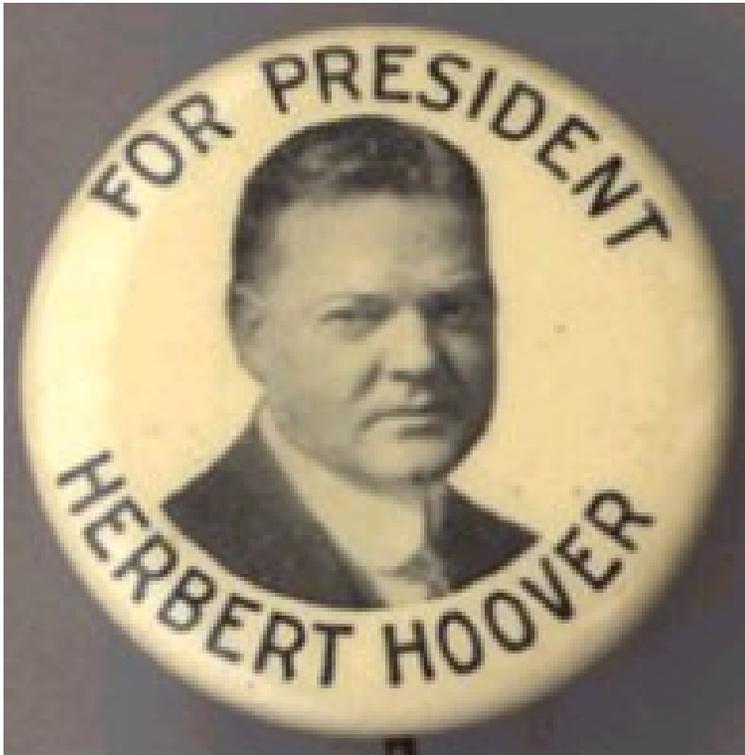


The **Great Depression** is one of the most misunderstood events in American history...



**Some point to the  
Crash of the  
Stock Market  
as the cause of the  
Depression...**

**Not true.**



Some blame  
Herbert Hoover,  
claiming his  
“hands-off”  
economic policies  
dragged America  
into the  
Depression...  
**Not accurate.**

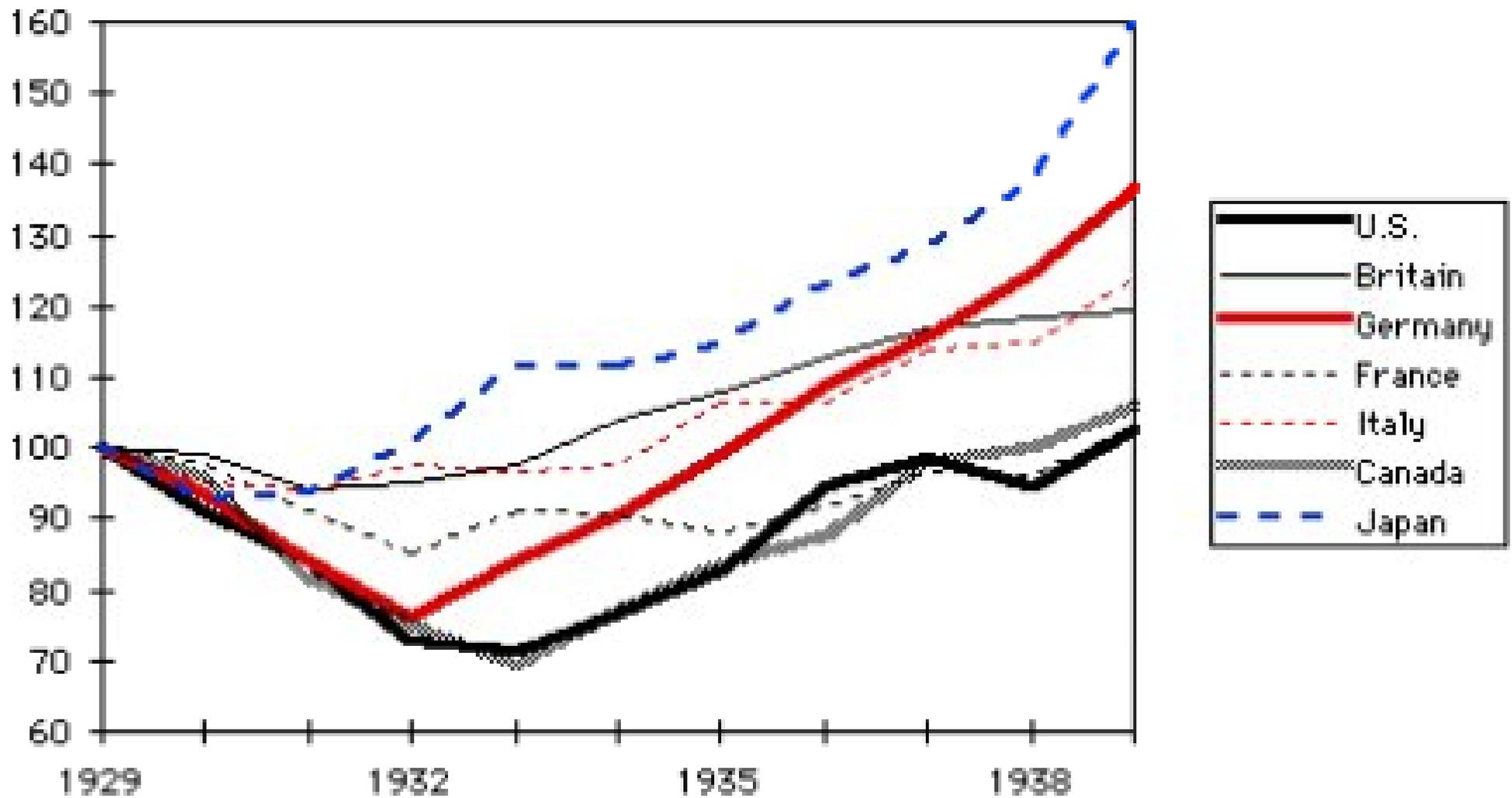


The Great Depression was  
a **worldwide event**.

By 1929, the world  
suffered a major rise  
in unemployment.



## Real National Product in the Great Depression, 1929=100





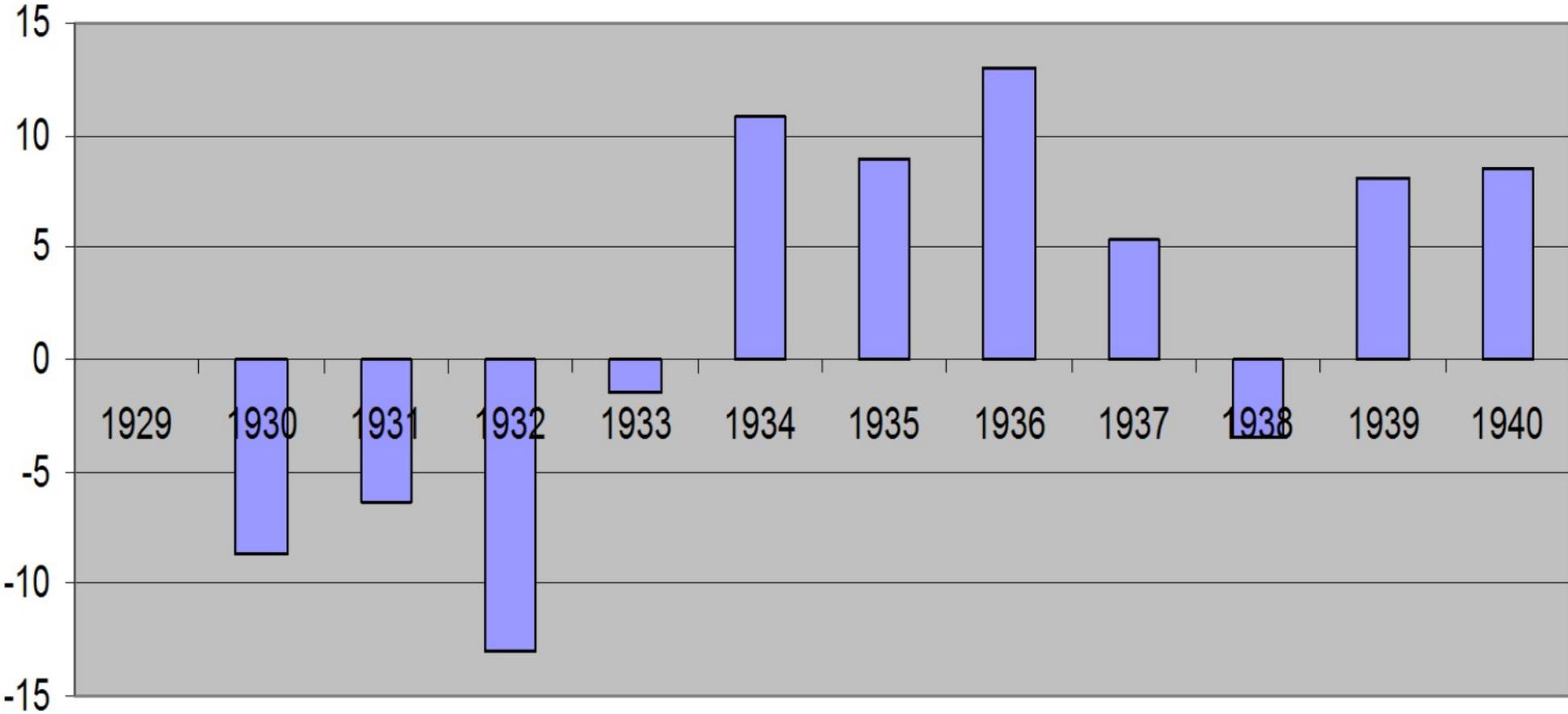
The **Great Depression** was not the country's first depression, though it proved to be the longest and most severe.



In the first four years of  
the Depression,  
real economic output  
(**Gross Domestic Product**)  
fell by 30%  
from 1929 to 1933.

The U.S. Stock Market  
lost 90% of its value.

### Percent Change in Real GDP





Many did not realize how severe the downturn was until 1932, when the economy had technically **“hit bottom.”**



**But the human  
misery  
continued long  
into the  
late 1930s...**



*“Brother Can You Spare a Dime?”*

*Once I built a railroad, I made it run  
I made it race against time  
Once I built a railroad, now it's done  
Brother, can you spare a dime?*

*Once I built a tower, up to the sun  
Bricks and mortar and lime  
Once I built a tower, now it's done  
Brother, can you spare a dime?*



There are several explanations, but the most obvious causes are four:

1. Overproduction
2. Banking & Money Policies
3. Stock Market Actions
4. Political decisions

# 1. Over-production:





The “roaring twenties” was an era when our country prospered tremendously.

Average output per worker increased 32% in manufacturing and corporate profits rose 62%.



The availability of so many **consumer goods**, such as electric appliances and automobiles, offered to make life easier.

Americans felt they deserved to reward themselves after the sacrifices of World War I.



## **"Gee, Mom, Were They All Poor People?"**

"Not exactly poor, Bobby. They had money. But they didn't have all the nice things that we have—such as a radio, and electric lights, and a vacuum cleaner. You see, they didn't have electricity, or automobiles, or airplanes. Most of those things hadn't even been invented."

This led to a  
**high demand**  
for such goods,  
so companies began to  
produce more and more,  
in order to meet that  
**demand.**





But in reality there existed:

- \* **Underconsumption** of these goods here and abroad, because people didn't have enough cash to buy all they wanted...
- \* There still existed an **uneven distribution of wealth and income.**

Americas' farms were **overproducing**, as well.

During World War I, with European farms in ruin, the American farm was a prosperous business.



Increased food production during **World War I** was an economic “boon” for many farmers, who borrowed money to enlarge and modernize their farms.

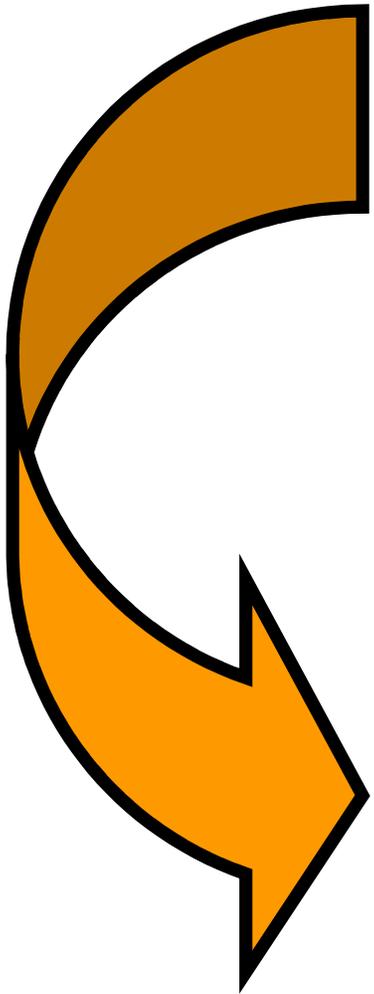




The government had also **subsidized** farms during the war, paying high prices for wheat and grains.

When the subsidies were cut, it became difficult for many farmers to pay their debts when **commodity prices** dropped to normal levels.

So, to summarize it,  
HIGH DEMAND  
for consumer goods  
and  
agricultural products  
led to  
OVERPRODUCTION.



# 2. Banking & Money Policies





**The uneven distribution of wealth didn't stop the poor and middle class from wanting to possess luxury items, such as cars and radios...**



But, **wages** were not keeping up with the **prices** of those goods...and that created problems!

One solution was to  
let products be  
purchased on **credit**.

The concept of  
"buying now  
and paying later"  
caught on quickly.

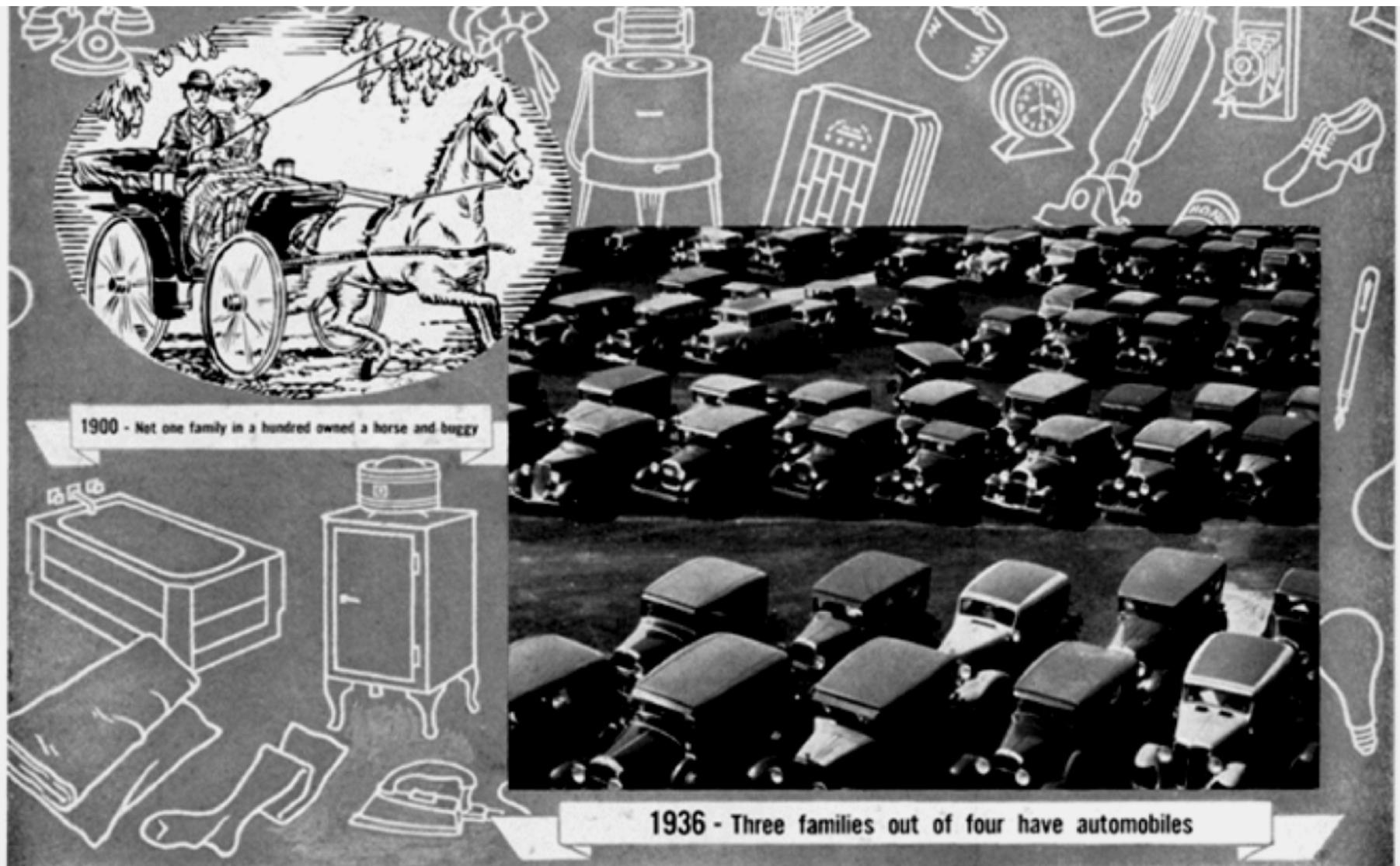




There had been **credit**  
before for businesses,  
but this was the  
first time  
**personal consumer credit**  
was available.



By the end of the 1920s,  
60% of the cars and 80%  
of the radios were bought  
on **installment credit**.



## More Goods for More People

**I**N 1900, not one family in a hundred owned a horse and buggy; today, three out of four have cars. One family in thirteen had a telephone; now, one family in two. In 1900, modern plumbing and central heating were luxuries—less than 500,000 homes had electricity—radio and electric refrigeration were unknown. Today, 21 million homes are wired; 7 million families own electric refrigerators; 22 million have radio receivers.

**The Federal Reserve  
Board**  
was created  
by Congress  
in response to the  
Banking Crisis of 1907.





The **Federal Reserve** was supposed to serve as a protective **"watchdog"** of the nation's economy.

It had the power to set the **interest rate** for loans issued by banks.

In the 1920s,  
the "Fed" set very  
**low interest rates**  
which encouraged  
people to buy on the  
"installment" plan  
(on credit.)





More buyers meant  
more **profit** for  
companies, so they  
produced more and  
more...

so much that a  
**surplus** of goods  
was created!



In 1929, the Fed worried that growth was too rapid, so it decided to **raise the interest rates** and **tighten the supply of money.**

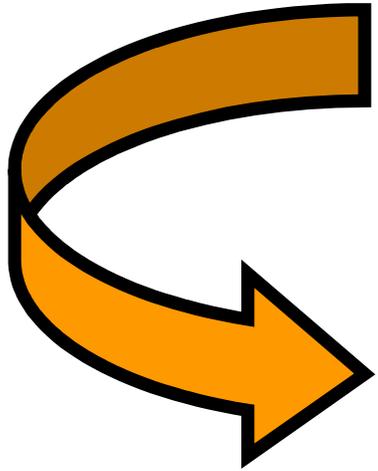
**This was a bad miscalculation!**

Facing **higher**  
**interest rates**  
and accumulating debt,  
people began to  
**slow down**  
their buying of  
consumer goods...

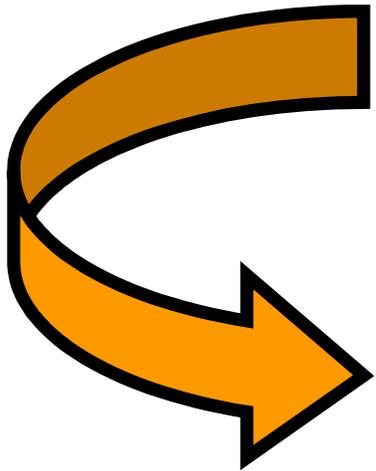


So, to summarize,  
banking policies  
which offered  
"buying on credit"  
first with  
lower interest rates,  
then *raising those rates*,  
caused a dangerous situation  
in the economy.





Buying on Credit  
increased  
personal debt.

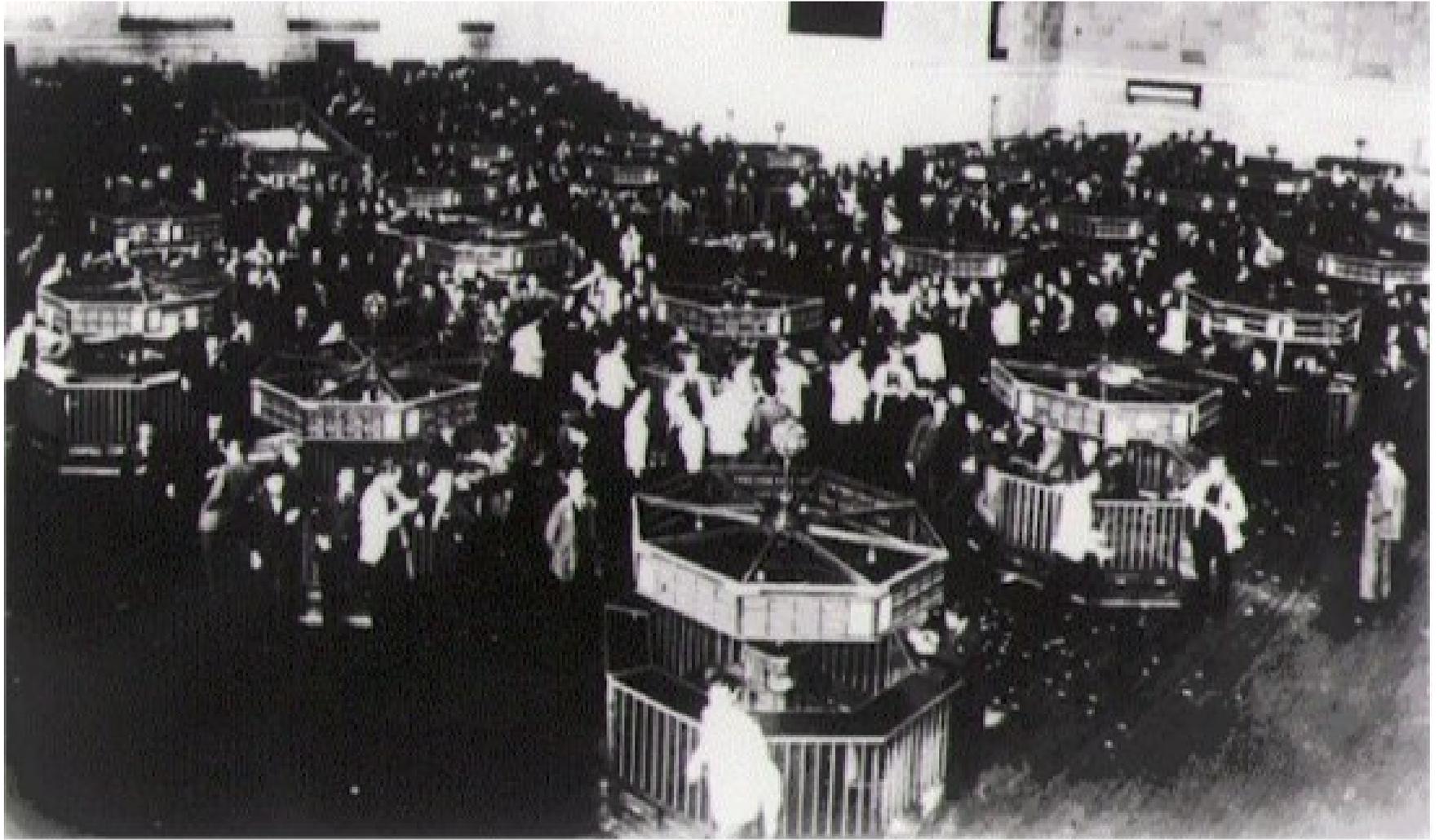


Higher interest rates  
caused  
LESS DEMAND  
for goods.



# 3. STOCK MARKET ACTIONS





The **Stock Market** was an indicator of national prosperity.



The Stock Market  
growth in the 1920s  
tells a story of  
**runaway optimism**  
for the future.



Just as one could buy  
goods on credit,  
it was easy to  
borrow money  
to invest in the  
stock market;  
This was called  
"margin investing"  
(or "buying on margin.")



Small investors were  
more apt to invest in  
the Stock Market  
in large numbers  
because the  
"margin requirement"  
was only 10%.

**This meant that you would  
buy \$1,000 worth of  
stock with only 10% down,  
or \$100.**

**People leapt at the chance  
to invest  
in business!**



# George Olsen and his Music

## "I'm In The Market For You"

*I'll have to see my broker  
Find out what he can do.  
'Cause I'm in the market for you.  
With margin I'm all through.  
'Cause I want you outright it's true.  
We'll count the hugs and kisses,  
When dividends are due,  
'Cause I'm in the market for you.*

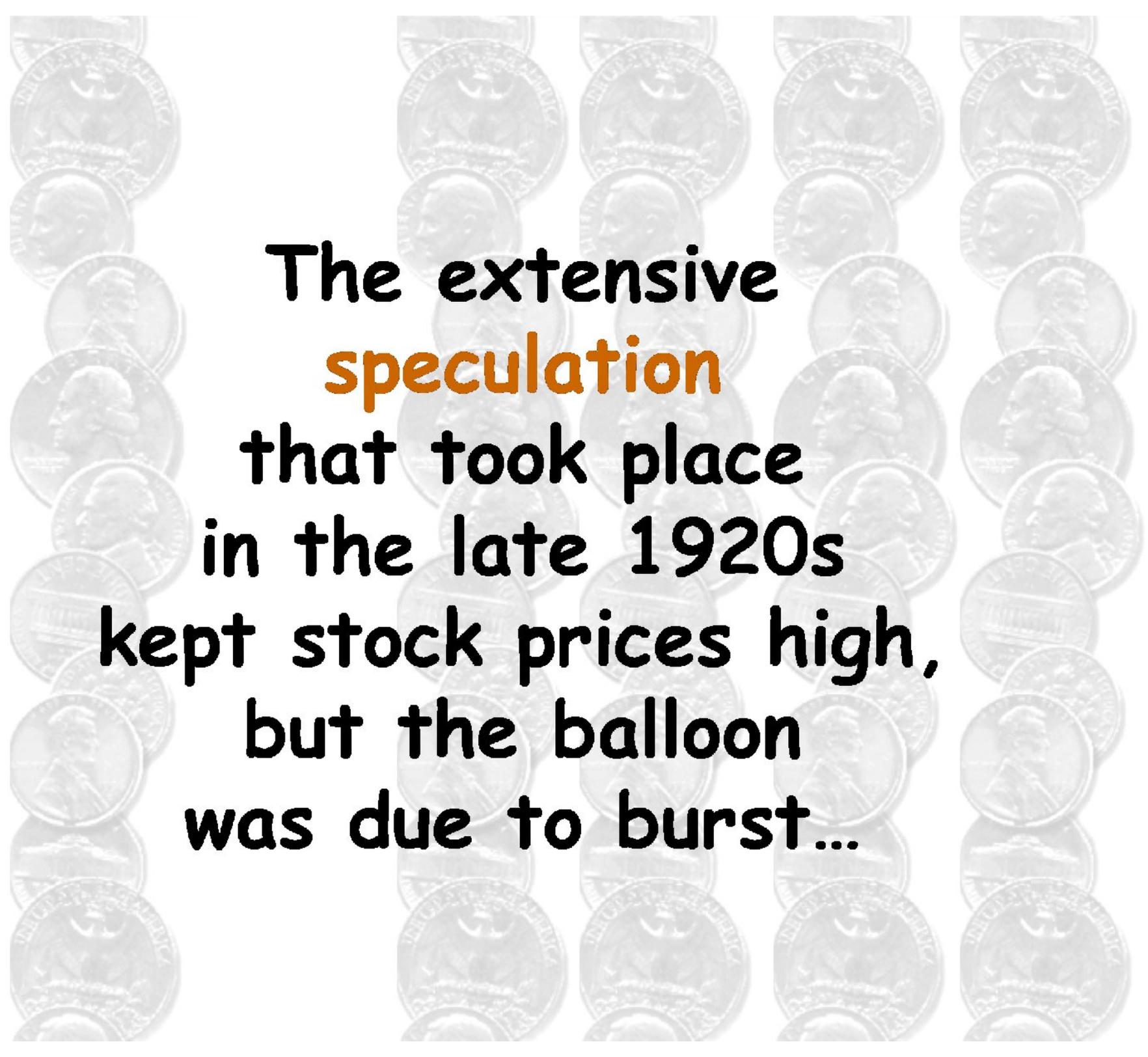


As business was booming in the 1920s and **stock prices kept rising** with businesses' growing profits, **buying stocks on margin** functioned like buying a car on credit.





**The extensive  
speculation  
that took place  
in the late 1920s  
kept stock prices high,  
but the balloon  
was due to burst...**



The crucial point came when banks began to loan money to stock-buyers.

Wall street investors were allowed to use the stocks themselves as collateral. If the stocks dropped in value, the banks would be left holding near-worthless collateral.

*So what went wrong?*





# The Crash:

“Black Tuesday”

**Oct. 29, 1929,  
the Stock Market crashed.**

Read It in the Morning  
While It Is News

# The Globe.

THE WEATHER  
Prediction: Fair and cool  
See Globe for details and forecasts

VOL. LXXXVI NUMBER 2434

TORONTO, FRIDAY, OCTOBER 26, 1929

24 PAGES

## Stock Speculators Shaken in Wild Day of Panic

### Erratic Wheat Prices Churn Market

#### Your Paper

IN ACCORD with the daily routine, The Globe this morning carries the official report of the trading in all markets on the New York Exchange at eleven-thirty a.m. As a rule, all the news of the day is in the paper by noon. The paper is published daily, except on Sundays and public holidays. It is published in the morning, and is the only paper in the city which is published in the morning. It is published in the morning, and is the only paper in the city which is published in the morning.

#### BOOKS AND FLOTSAM MUTELY TELL OF FATE MET BY 50 ON FERRY

#### Life Belief Remains of Saviors Found in Lake Michigan

#### WATER TIMES DISASTER

#### No Evidence Found to Support Story of Fire Fawcett

By the Staff of The Globe

#### New Records Set

Trade made on the New York Stock Exchange today reached a record of \$1,204,650,000, the highest since the crash of 1929. The volume of trading was also a record, with 1,204,650,000 shares traded.

Wheat prices were also volatile today, with prices for the month ending in October ranging from 1.10 to 1.15 per bushel.

The Canadian situation is also being watched closely by financial chiefs, with many predicting a recovery in the near future.

The market today was characterized by a sense of panic, with many investors selling their holdings in a hurry.

#### CANADIAN SITUATION ECONOMICALLY SOUND, SAY FINANCIAL CHIEFS

#### Goal of Yesterday

Financial chiefs today said that the Canadian situation is economically sound, despite the recent market crash. They predicted a recovery in the near future.

#### 'DIP' FORESEEN BY OBSERVERS

Observers today predicted a 'dip' in the market, but they also saw signs of recovery. They predicted a recovery in the near future.

#### SOCIALIST MAY LEAD NEXT PARIS CABINET

It is believed that a Socialist may lead the next Paris cabinet, as the current government is expected to resign.

#### MAELSTROM OF PANIC AS VALUES PLUNGE, THEN LEAP UP AGAIN

#### Design, Then Warnings, Substituted to Bullish Speculators

#### SMALL BARS SEIZED

#### Tens of Paper in Spain Given Warning From Total

The market today was characterized by a sense of panic, with many investors selling their holdings in a hurry.

Small bars were seized today, as the market continued to fluctuate.

Tens of paper in Spain were given a warning from the total, as the market continued to fluctuate.

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The market today was characterized by a sense of panic, with many investors selling their holdings in a hurry.

Small bars were seized today, as the market continued to fluctuate.

### Record for All Time Is Set by Wall Street In Frenzy of Selling

Most Distress Decline in History of New York Stock Exchange Seen 12,044,650 Shares Change Hands—Total of \$74 Separate Issues Handled—Thousands of Accounts Wiped Out Before Leading Bankers Combine to Halt Stampede—Losses Reported to Reach Billion of Dollars

#### FINANCIAL LEADERS IN CONFERENCE ISSUE REASSURING STATEMENT

Securities Markets of Country Feel Effects of Downward Movement—Chicago Price Book in Record Day's Trading of 1,200,000 Shares—London Sends Nervous Day Watching Events Across Atlantic

NEW YORK, Oct. 26.—The most distressful decline in the history of the New York Stock Exchange today reached a record of 12,044,650 shares change hands.

The market today was characterized by a sense of panic, with many investors selling their holdings in a hurry.

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Tens of paper in Spain were given a warning from the total, as the market continued to fluctuate.

#### CRASH IN NEW YORK ROCKS SHARE PRICES IN TORONTO MARKETS

#### Rush of Orders Demolishes Communications for a Time

#### MINED SHARES AFFECTED

#### Vigorous Opening Late in Day—Montreal Exchange Has Record Day

Toronto in afternoon the market was in a state of panic, with many investors selling their holdings in a hurry.

Small bars were seized today, as the market continued to fluctuate.

Tens of paper in Spain were given a warning from the total, as the market continued to fluctuate.

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The market today was characterized by a sense of panic, with many investors selling their holdings in a hurry.

#### SLANDER CAMPAIGN IN SOUTH ONTARIO CHARGED BY SINCLAIR

#### 'Controversial Tactics' Vigorously Attacked by Liberal Leader

#### SPEAKS IN OWN BIDDING

Mr. Sinclair today attacked the 'controversial tactics' of the Conservative Party in South Ontario, charging that they were using unfair means to win the election.

He said that the Conservative Party was using 'controversial tactics' to win the election, and that he would vigorously attack them.

Mr. Sinclair today spoke in his own bidding, and said that he would vigorously attack the 'controversial tactics' of the Conservative Party.

He said that the Conservative Party was using 'controversial tactics' to win the election, and that he would vigorously attack them.

Printed in Canada with Best Quality Paper

Over 16  
million shares  
sold in massive  
selling frenzy.

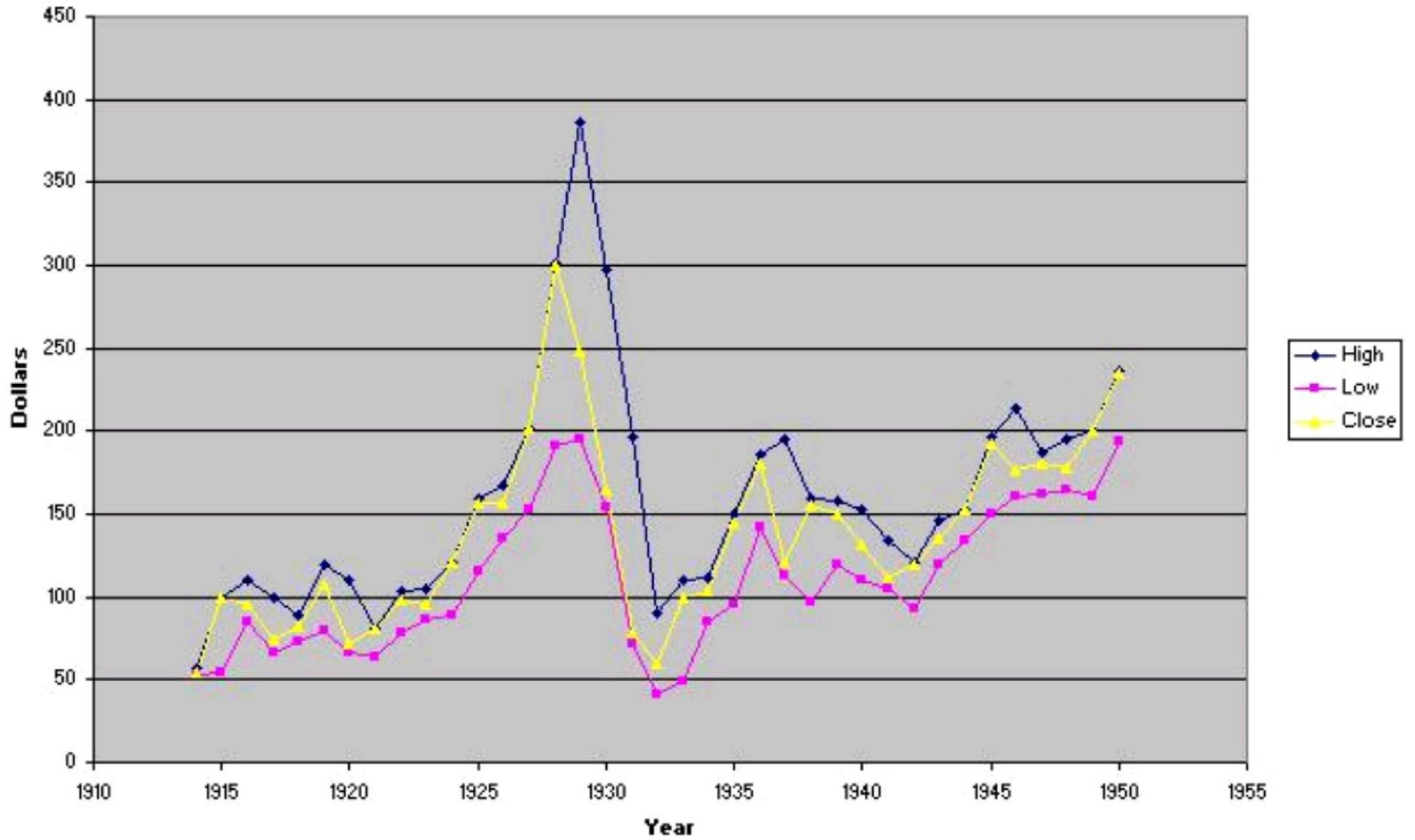
Losses  
exceeded  
\$26 billion.



Actually, the "crash" was by no means a one-day event.

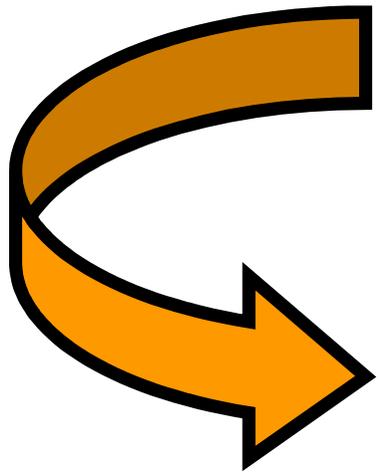
A month earlier, trading increased rapidly as stock values dropped and people panicked, trying to sell their stocks before losing too much of their investments.

### The Dow Jones Industrial Average (Annual Data)

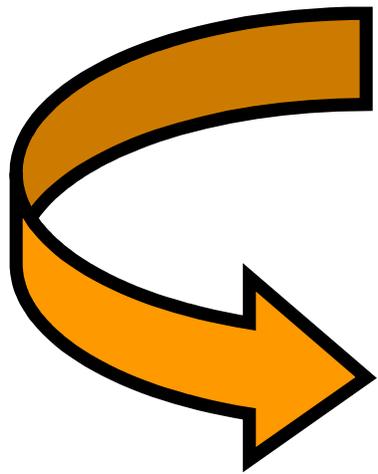




The **Stock Market  
Crash of 1929**  
was only a symptom-  
*not* the cause of the  
**Great Depression.**



Buying on Margin  
was a  
risky market  
practice.



Bank loans for  
stock purchases  
was an  
unsound practice.



# More Poor Banking Policies...



With the **loss of confidence** in stocks, people began to lose confidence in the security of their money being held in banks.

Customers raced to their banks to withdraw their savings.





The **Federal Reserve** was also established to prevent bank closings.

It was suppose to serve as the **"last resort" lender** to banks on the verge of collapsing.



However, the Fed had **lowered** its requirement of **cash reserves** to be held by banks. Many banks didn't have enough cash available to match the amount of money in customers' accounts.

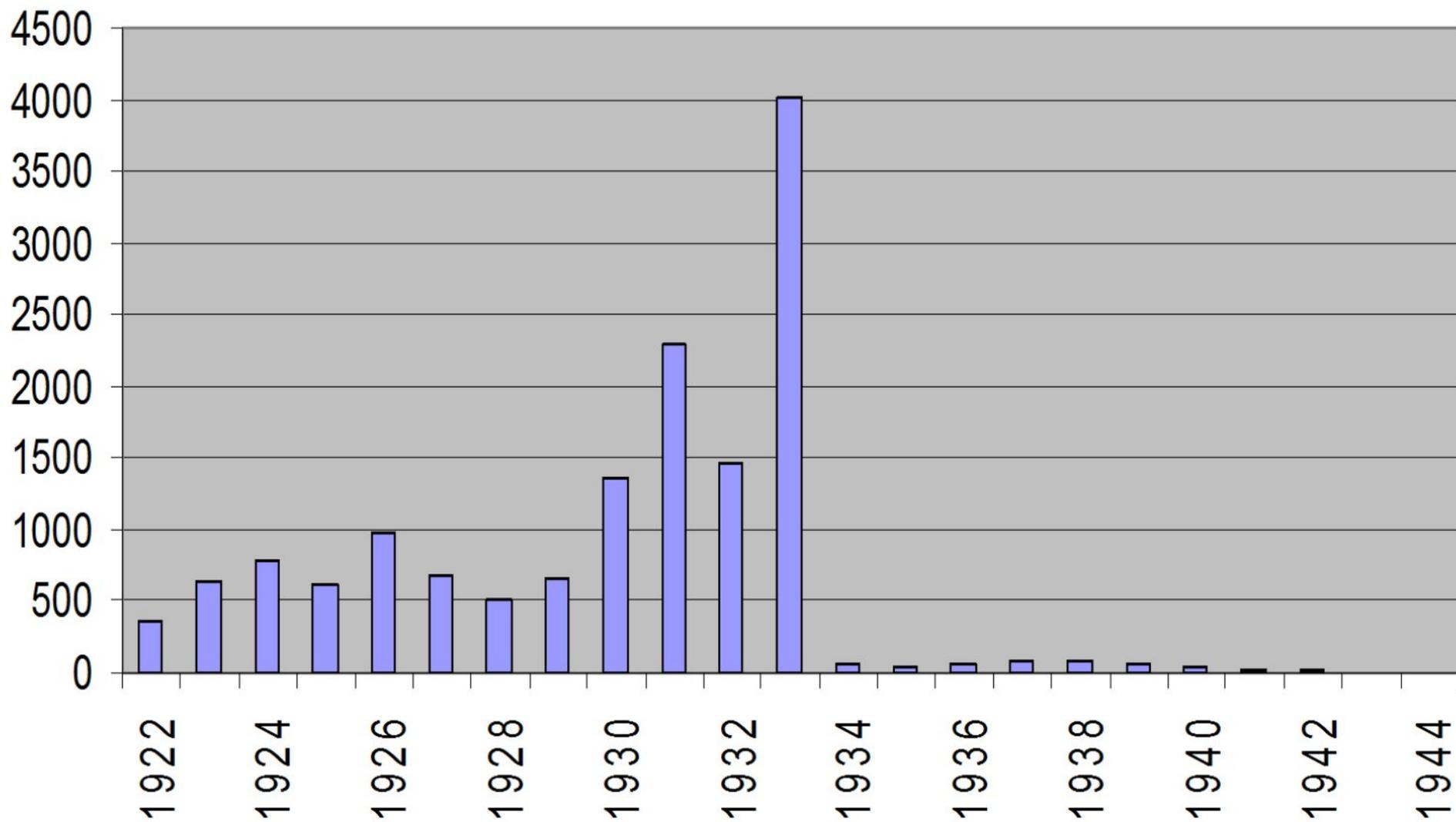




**In early 1930, there were  
60 bank failures per month.**

**Eventually, 9,000 banks  
closed their doors between  
1930 and 1933.**

# Bank Failures



**Simply put, when a bank fails, a large amount of money disappears from the economy.**

**There was no insurance for depositors at this time, so many lost their savings.**



**As banks closed their doors and more people lost their savings, fear gripped depositors across the nation.**





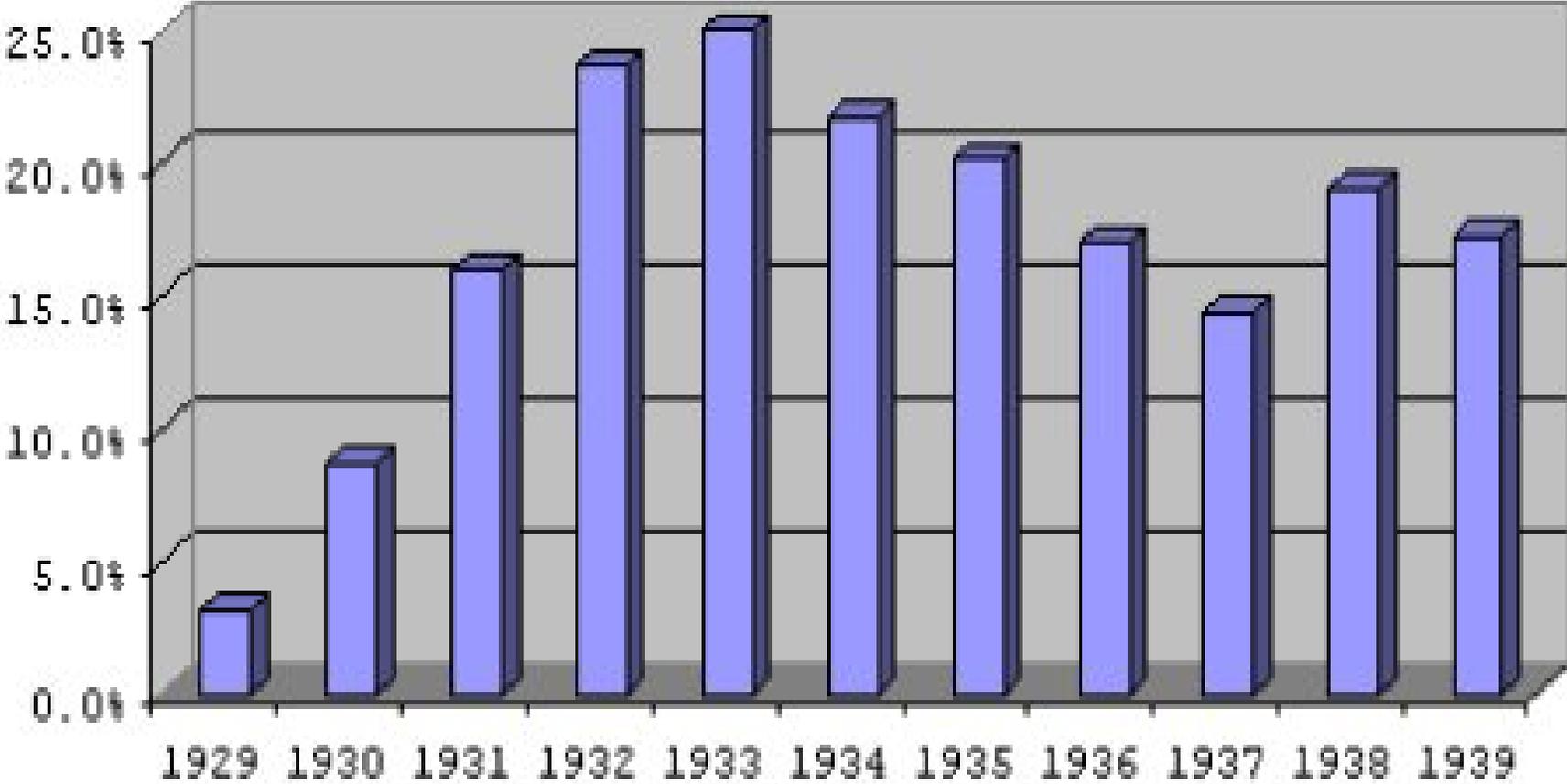
**Business also lost its money and could not finance its activities...**

**More businesses went bankrupt and closed their doors, leaving more people unemployed...**

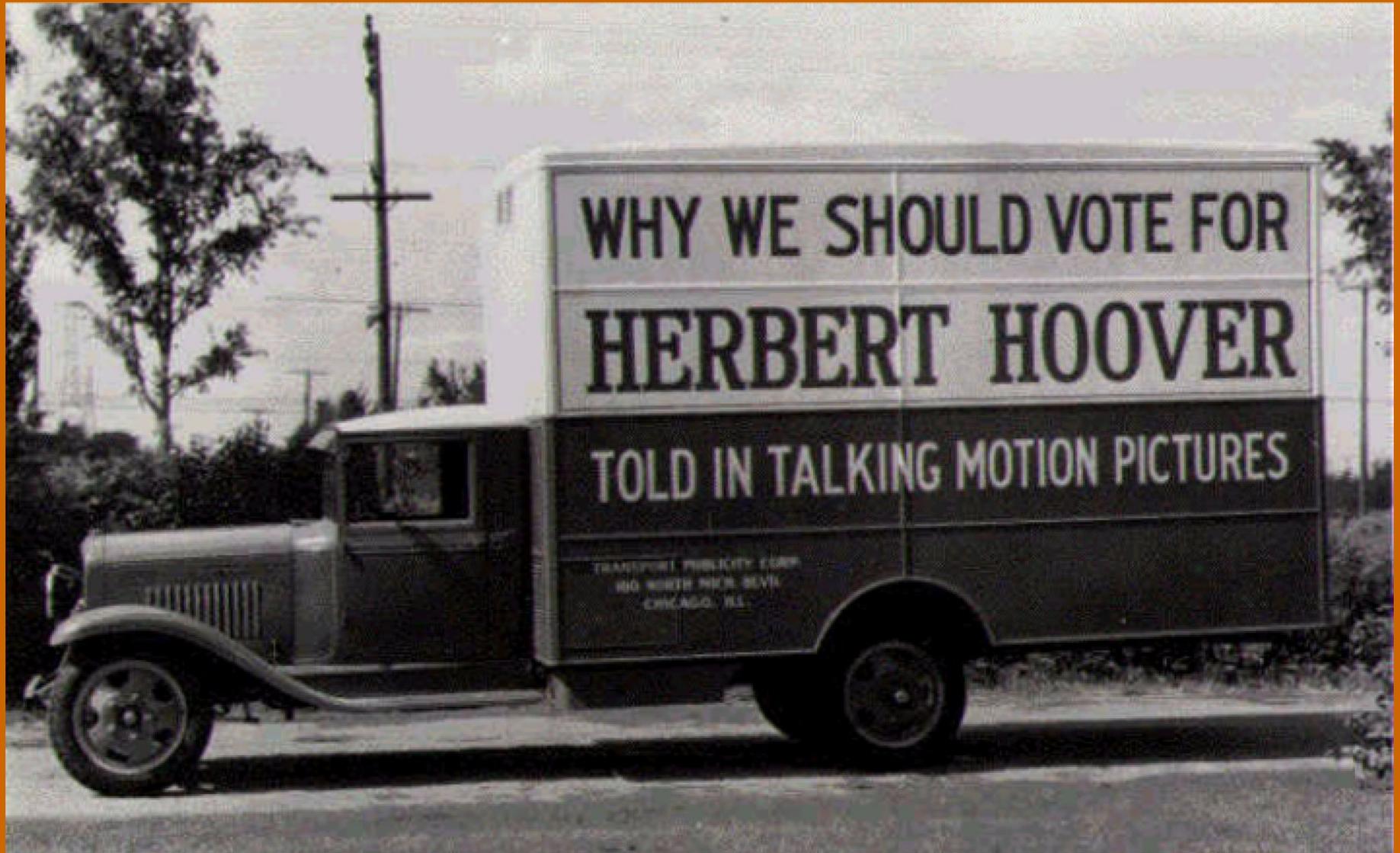


**...Causing unemployment to reach even higher levels.**

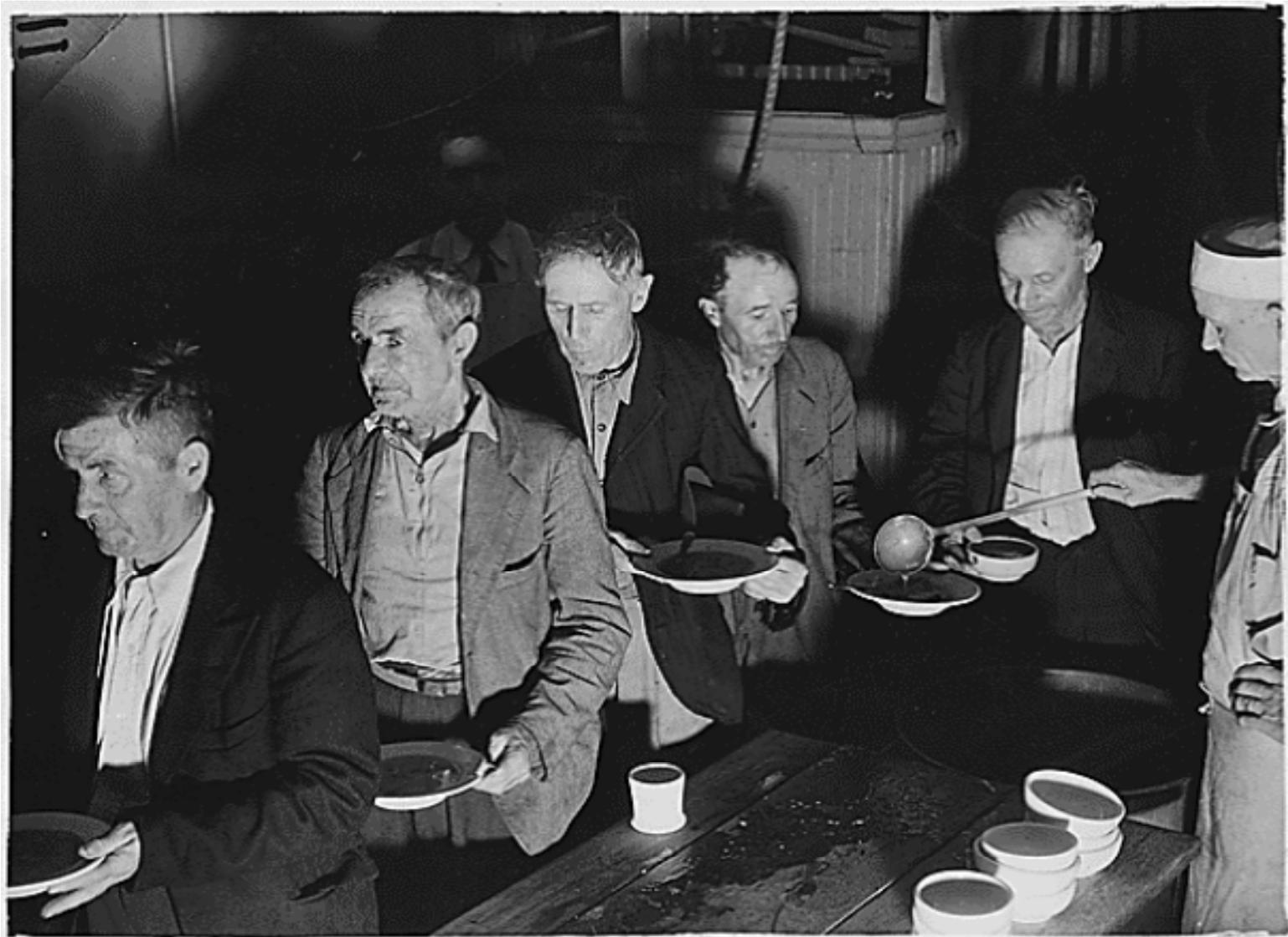
# Unemployment in the Great Depression



# 4. Political Decisions:



**The Depression could have been less severe had policy makers not made certain mistakes...**



**Leaders in government and business  
relied on poor advice from  
economic & political experts...**





*"The sole function of the government is to bring about a condition of affairs favorable to the beneficial development of private enterprise."*

*Herbert Hoover (1930)*

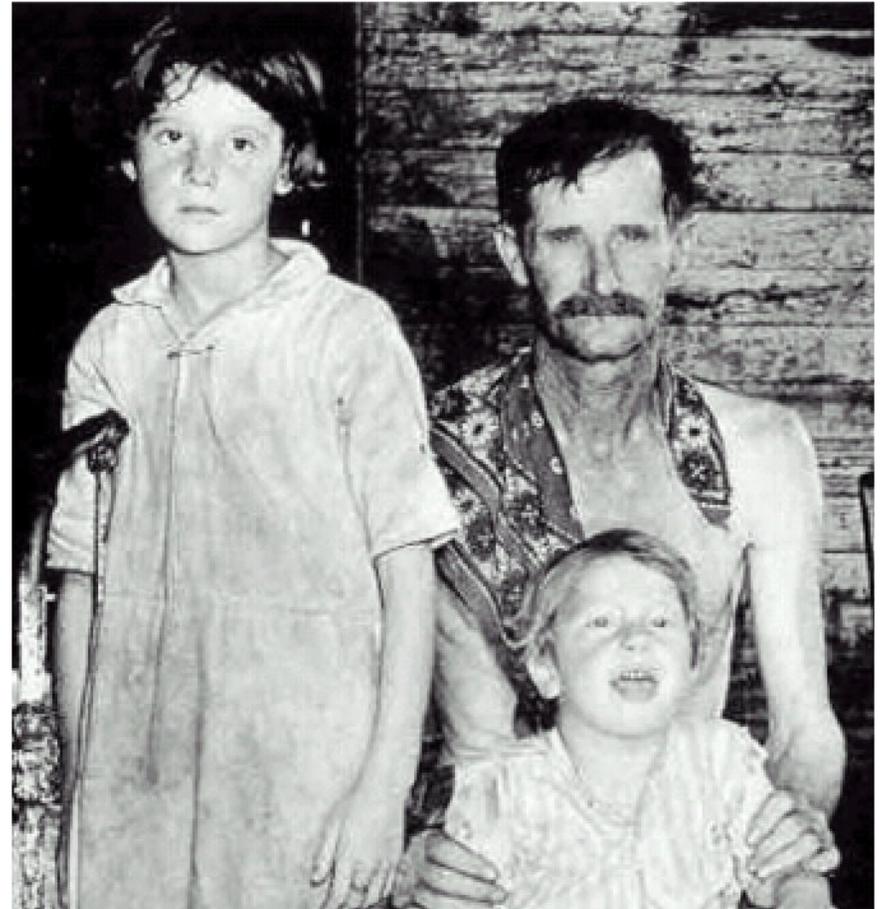


But did Hoover really believe in a  
“hands-off”  
**free market** philosophy?



Hoover did take action to  
**intervene** in the economy,  
but it was  
too little too late-

Hoover  
dramatically  
increased  
government  
spending for  
relief,  
doling out millions  
of dollars to  
wheat and cotton  
farmers.



Within a month  
of the crash,  
Hoover met with  
key business  
leaders to urge  
them to **keep  
wages high,**  
even though  
prices and  
profits  
were falling.



The greatest mistake of the Hoover administration was passage of the **Smoot-Hawley Tariff**, passed in 1930.

(It came on top of the Fordney-McCumber Tariff of 1922, which had already put American agriculture into a tailspin.)



The most protectionist  
legislation in history,  
the **Smoot-Hawley Tariff**  
Act of 1930  
raised tariffs on  
U.S. imports up to 50%.

Officials believed that **raising trade barriers** would force Americans to buy more goods at home, which would keep Americans employed.

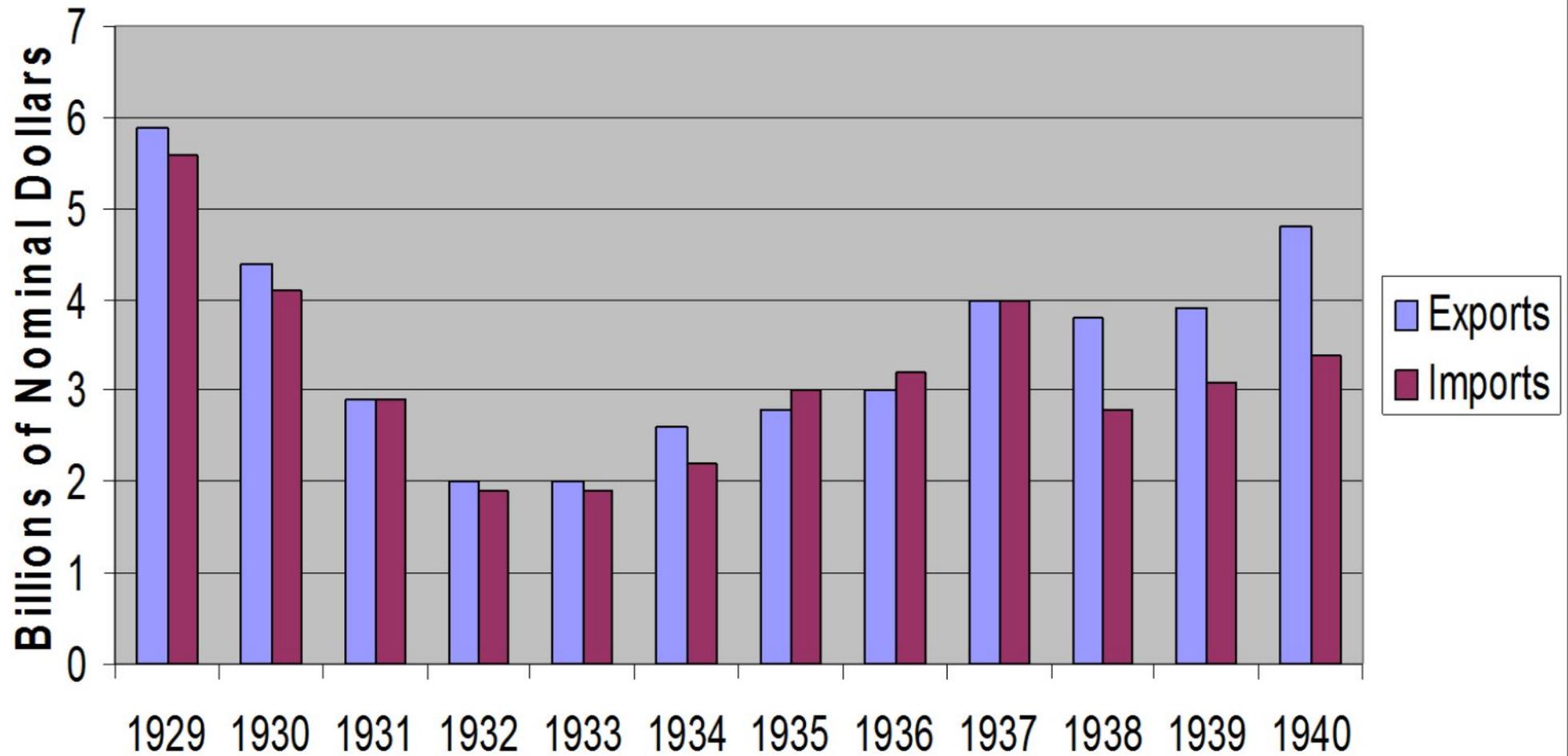


But they ignored  
the principle of  
**international trade**-  
it is a **two-way** street;

If foreigners can't sell  
their goods here,  
they will shut off our  
exports there!



## Smoot Hawley Tariff of 1930 and Trade Reform Act of 1934





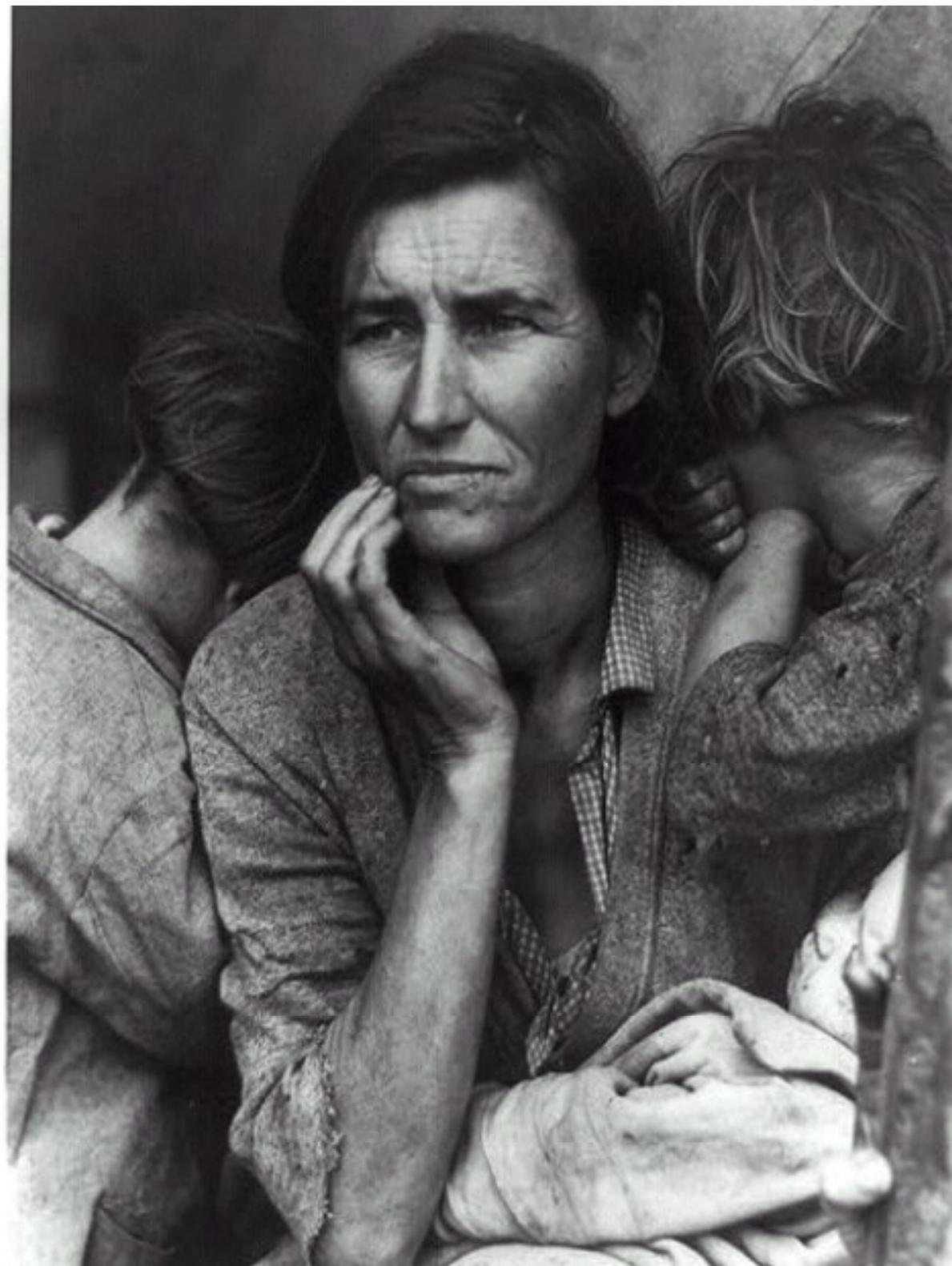
It virtually closed our borders to foreign goods and ignited a vicious international trade war.



**Europe had debts from  
World War I and Germany  
had reparations to pay.**

**Foreign nations curtailed  
their purchase of  
Americans goods.**

**For example,  
American  
farmers lost  
1/3  
of their  
market.  
Farm prices  
plummeted and  
thousands  
of farmers  
went bankrupt.**





To compound the effects of the economic slump, farmers would experience one of the worst, longest **droughts** in history during the 1930s...

...creating a **"Dust Bowl"** of unproductive, eroded farmland.





- Black Sunday April 14, 1935. The dust storm that turned day into night. Many believed the world was coming to an end. Dodge City, KS

■ June 4, 1937, at Goodwell, OK





- Dust storm approaching Stratford, TX  
April 18, 1935

# “Fleeing a dust storm”

- Farmer Arthur Coble and sons walking in the face of the dust storm. April, 1936

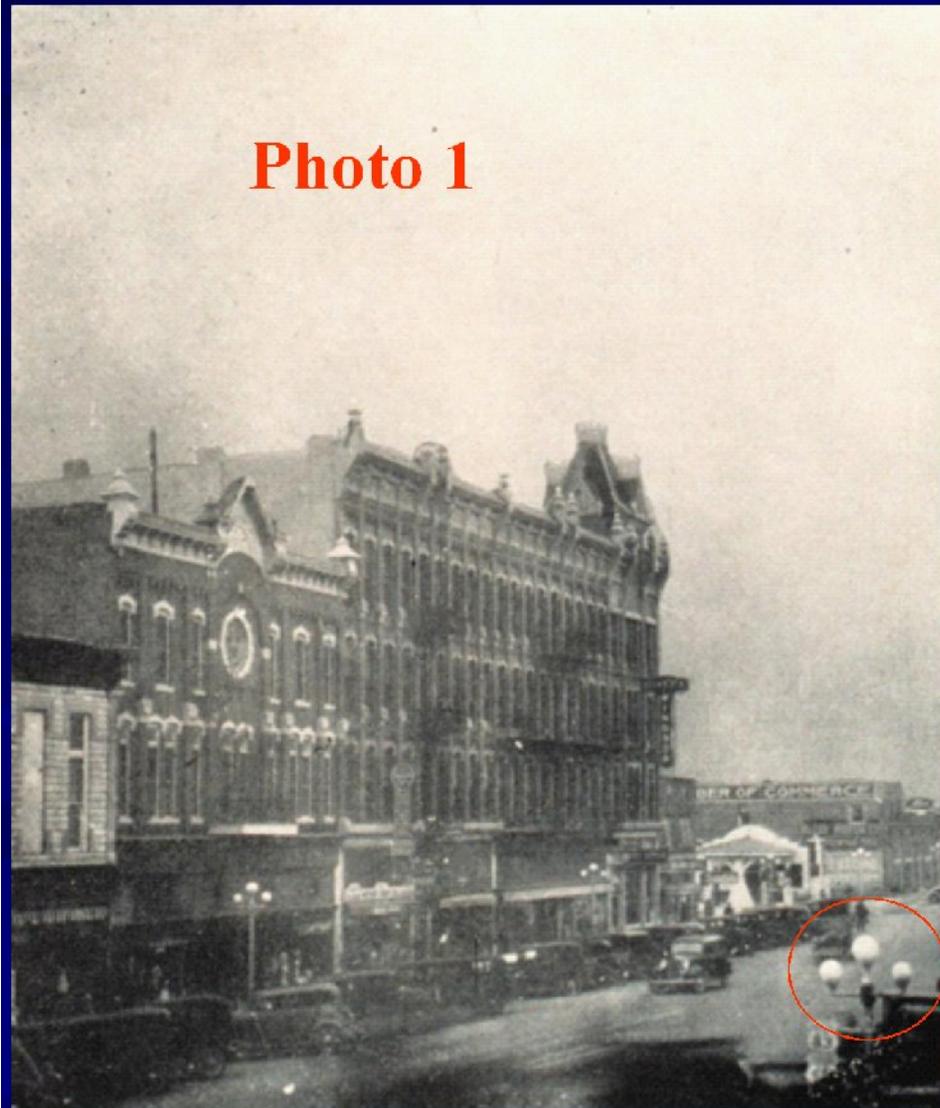




■ Sometimes it was deep.

- Garden City, KS at 5:15 PM (*note the street lights photo 1*) and compare to photo 2. Photo 2 was just 15 min. later after the dust blotted out the sun.

**Photo 1**



**Photo 2**





Three years later,  
**international trade**  
plummeted to 33% of its  
1929 level.

The loss of such trade was  
devastating and had ripple  
effects, similar to the  
bank failures.



Another aspect of the  
Great Depression was  
"deflation."

Prices for goods fell  
30-40%  
in the four largest  
world economies -  
the U.S., United Kingdom,  
Germany, and France.



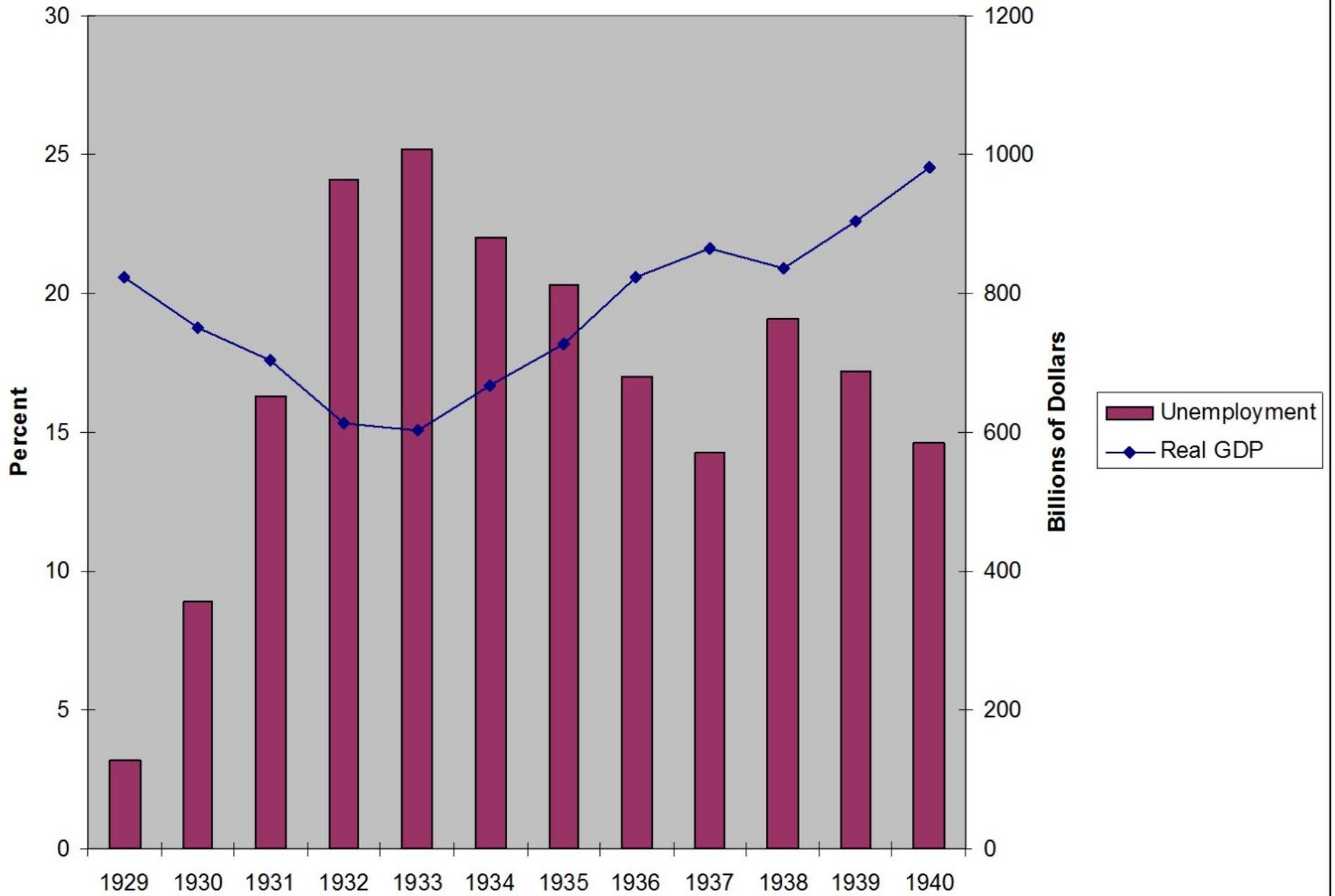
**Deflation**  
**occurs with**  
**lower demand**  
**and falling prices.**



**Deflation caused  
bankruptcies;**

**millions of people  
and companies  
were wiped out completely.**

# Great Depression



*More poor government policies...*





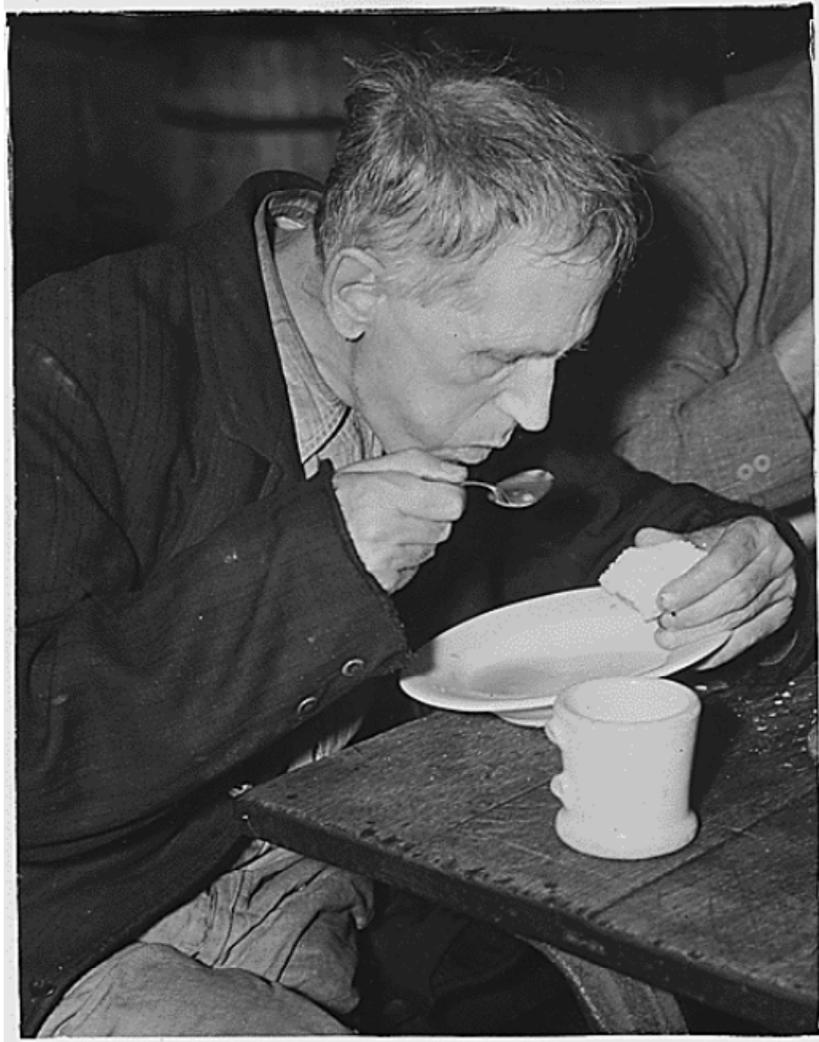
Because nothing else seemed to be working, the federal government decided it was prudent to **balance the federal budget.**

President Hoover,  
with the support of a  
Democratic House of  
Representatives, passed  
the largest **peacetime tax  
increase** in history,  
the **Revenue Act** of 1932.



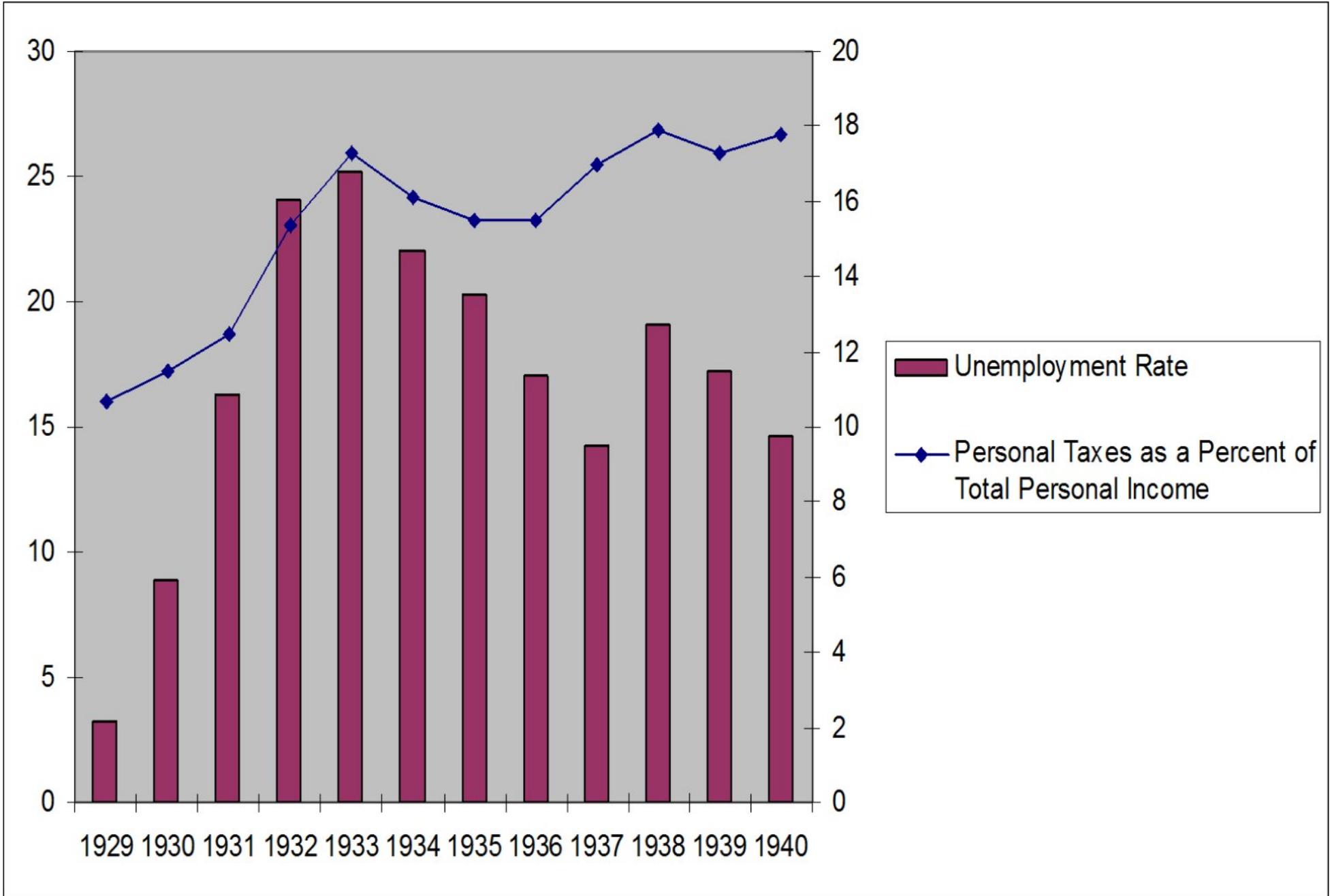
Income taxes were raised from  
1% to 4% at the low end  
and from 23% to 63%  
at the top of the scale.

Hoover's advisors hoped this tax  
increase could cover the  
mushrooming **deficit** of government  
spending for relief.

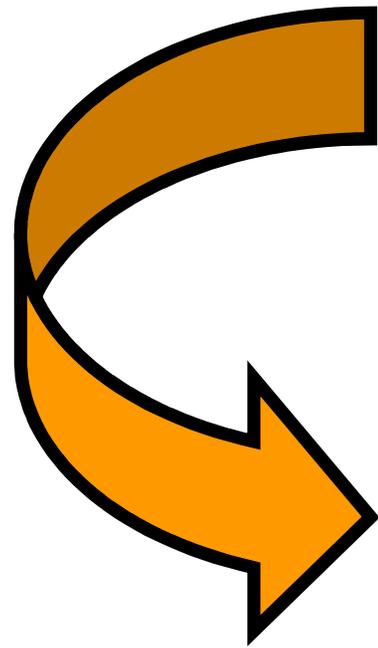


**But the decision  
was disastrous.**

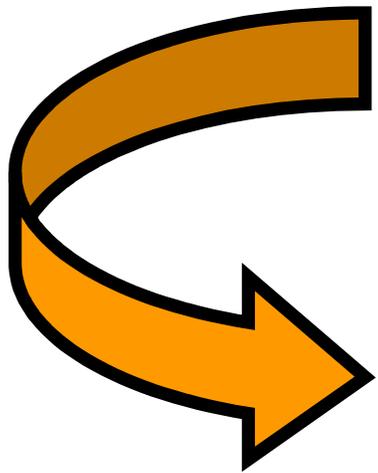
**The tax increase  
took money out of  
people's hands  
which only  
curtailed their  
spending.**



**In summary,**



**The Smoot-Hawley Tariff  
created trade wars  
and worsened  
world economic conditions.**



**Huge increase in taxes  
hurt companies and  
individuals.**



Let's Review the  
**MAJOR CAUSES**  
for the  
Great Depression:



- 1. Overproduction**  
*(responding to high demand for goods)*
- 2. Banking & Money Policies**  
*(low interest rates,  
buying on credit,  
raise in interest rates,  
low reserve rates for banks.)*
- 3. Stock Market Practices**  
*(buying on margin,  
bank loans for stock purchases)*
- 4. Political decisions**  
*(Smoot-Hawley Tariff,  
Increase Income Tax)*

# CHANGE IN LEADERSHIP ?

*Franklin Delano Roosevelt*  
won the presidential election  
in a landslide.





However,  
the platform  
of the  
**Democratic  
Party**  
was hardly  
similar to the  
policies he  
would later  
adopt...



Our greatest primary task is to put people to work. This is no unsolvable problem if we face it wisely and courageously. It can be accomplished in part by direct recruiting by the Government itself, treating the task as we would treat the emergency of a war, but at the same time, through this employment, accomplishing greatly needed projects to stimulate and reorganize the use of our natural resources.

*...FDR, 1933.*



It called for a

- \* reduction in federal spending,
- \* balanced federal budget,
- \* end to the farm relief programs, and the
- \* removal of government from areas of private enterprise!

**Crisis continued to grip the banking industry when the new President took office in March of 1933.**



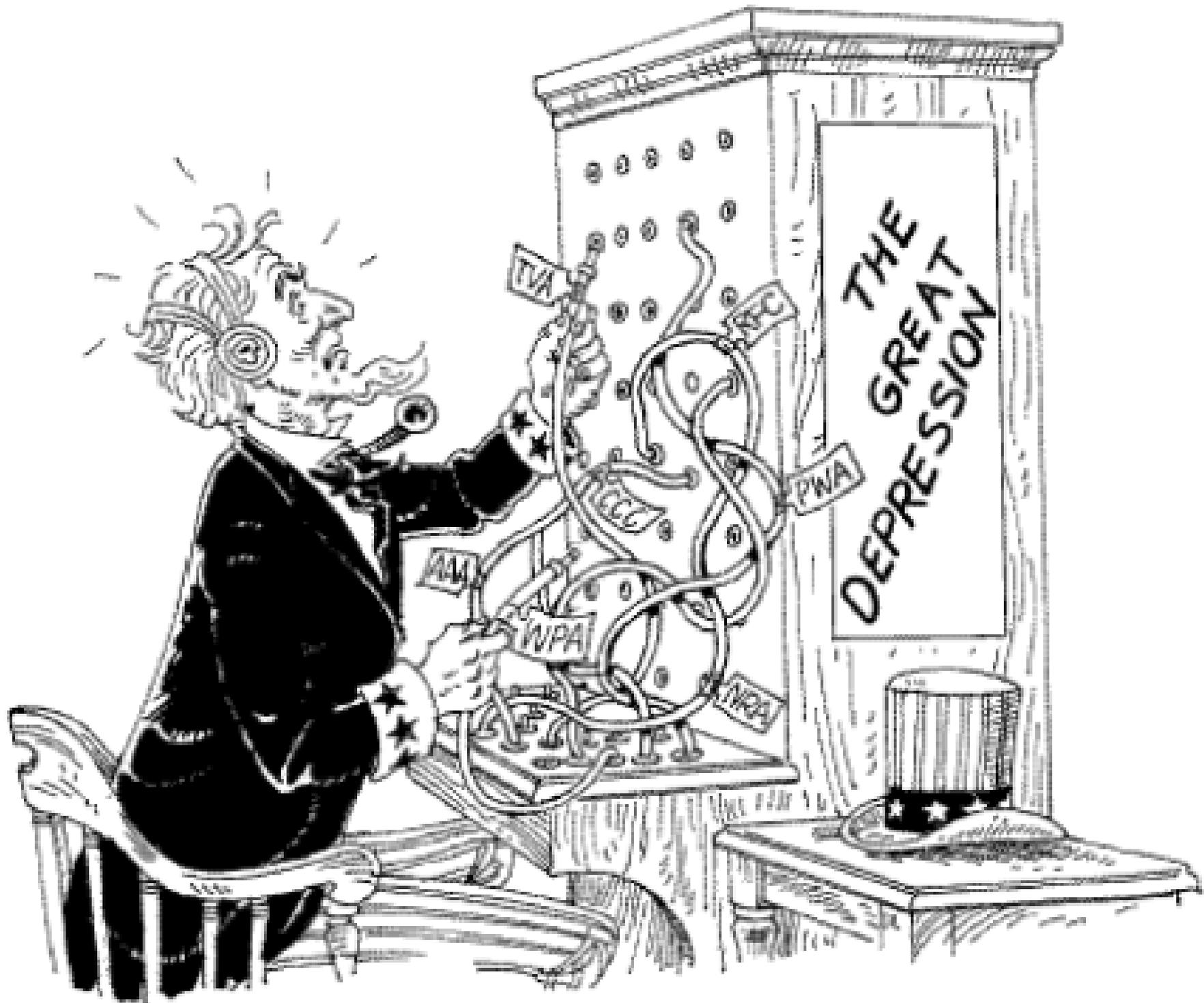


Roosevelt's action to close the banks and declare a **"national banking holiday"** is still hailed as a necessary action of government intervention in economic affairs.



Other initiatives targeted during the first 100 days focused on "3Rs" -

Relief, Recovery, & Reform.



For example, in order to bring about relief, FDR created quick, short-term jobs, such as the **Civilian Conservation Corps** where unemployed young men were put to work.



FDR created two types of **recovery** in his **New Deal** plan:

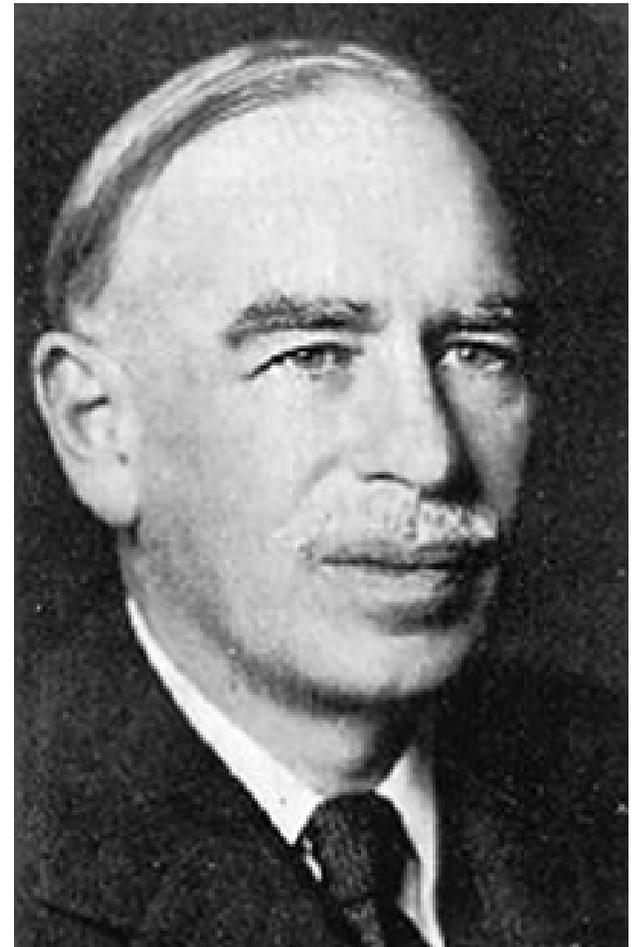
In **business recovery**, the work week was reduced to 30 hours per week, industries drew up codes of fair competition, & each business joined a trade association.



Where did  
this **new**  
**philosophy**  
adopted by  
FDR  
come  
from?

# Who was John Maynard Keynes?

- Father of the "New Economics"
- Advocated government spending to "prime the pump" during periods of economic distress. According to Keynes, **government intervention** is often necessary to promote economic stability.
- FDR's ideas were based upon Keynesian theory.





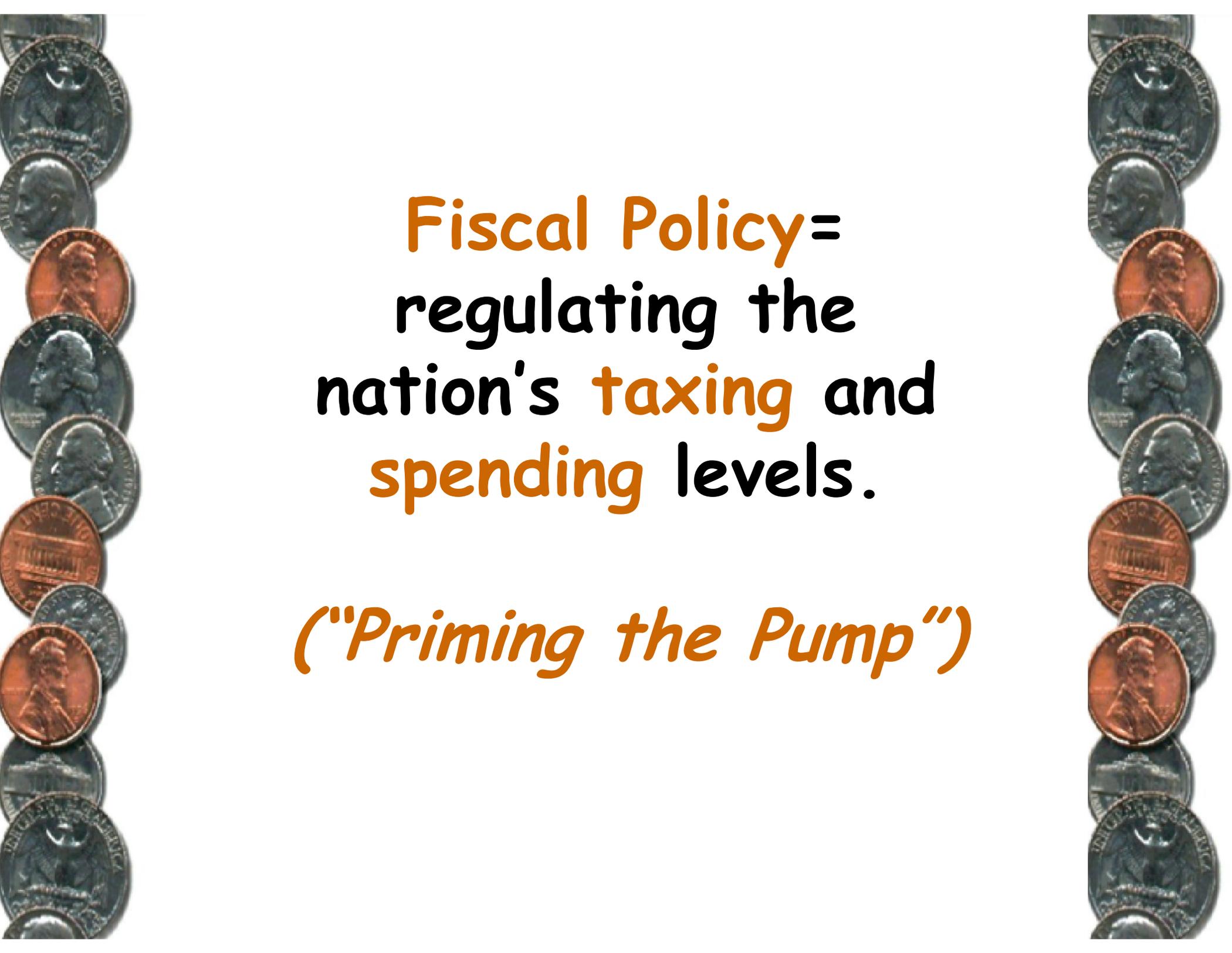
According to economic theory, the U.S. follows the principles of a **MARKET** economy (allowing businesses and individuals the freedom to make their own economic **choices**.)

**A Market system is driven  
by competition in the  
marketplace,  
entrepreneurship,  
and private ownership  
of property.**





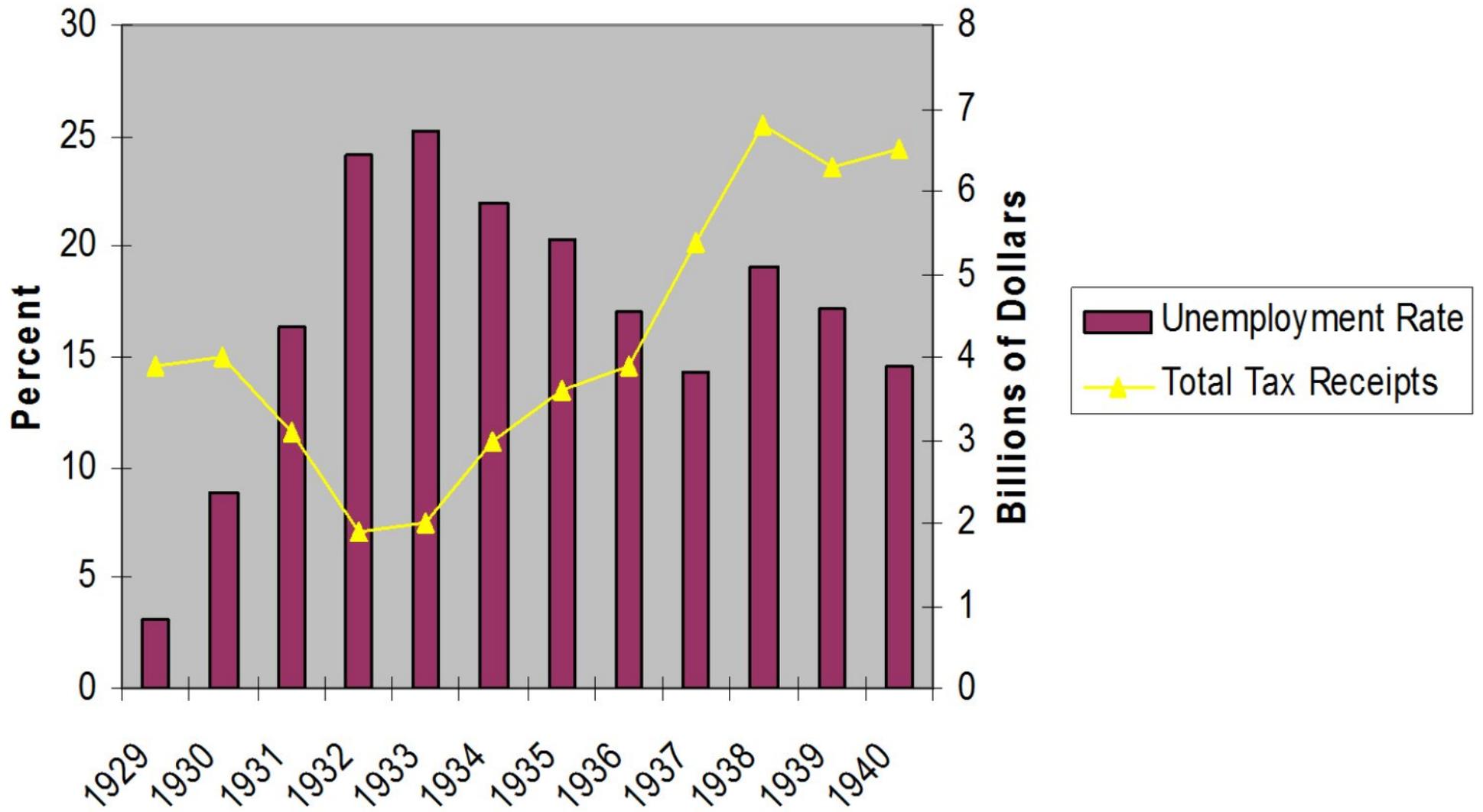
The primary tools used by the government to manage the economy are **fiscal policy** and **monetary policy**.



**Fiscal Policy=**  
regulating the  
nation's **taxing** and  
**spending** levels.

*("Priming the Pump")*

## The Federal Government Response



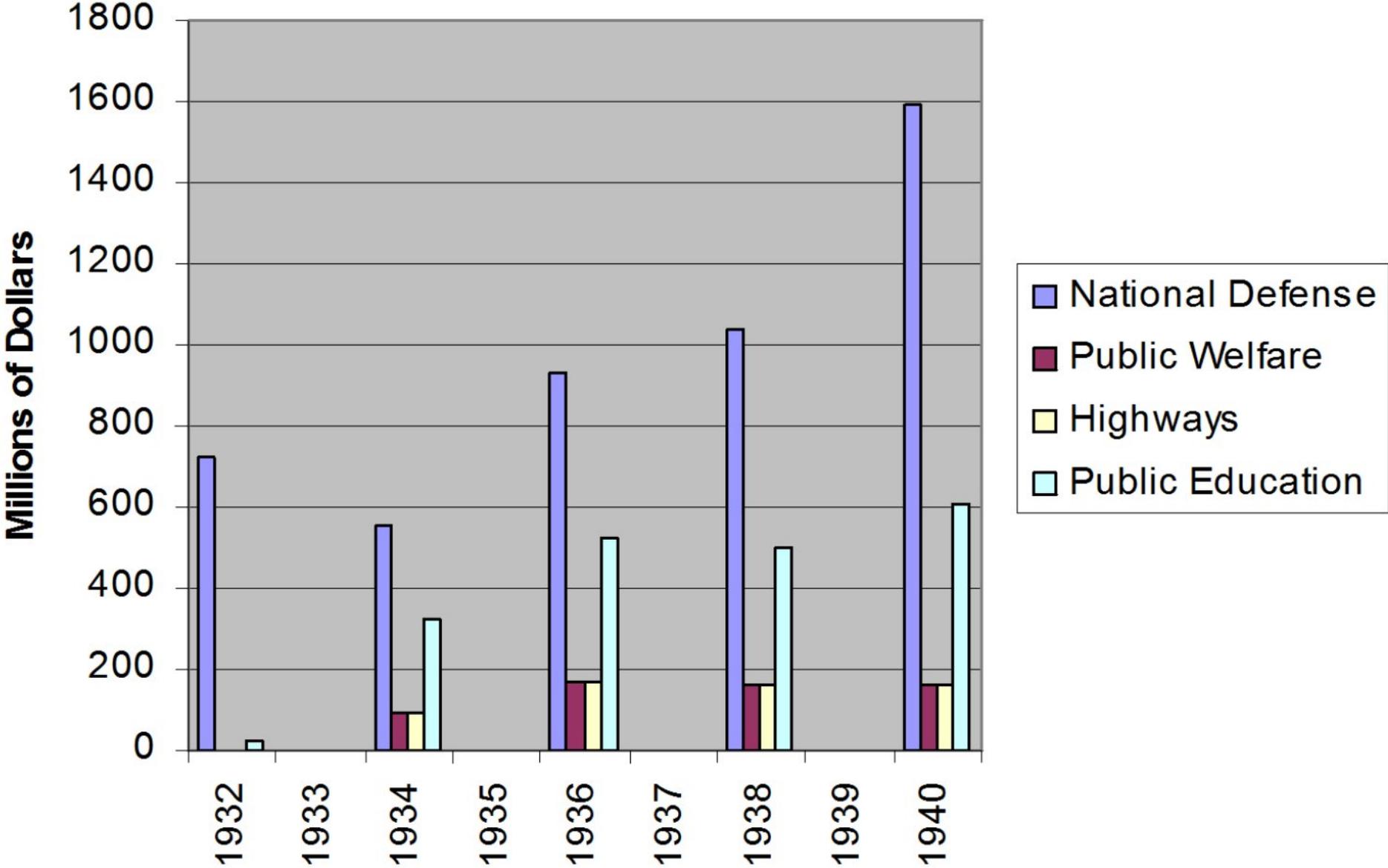
## "Priming the Pump"

meant that government itself should start spending in order to start the economy growing again.

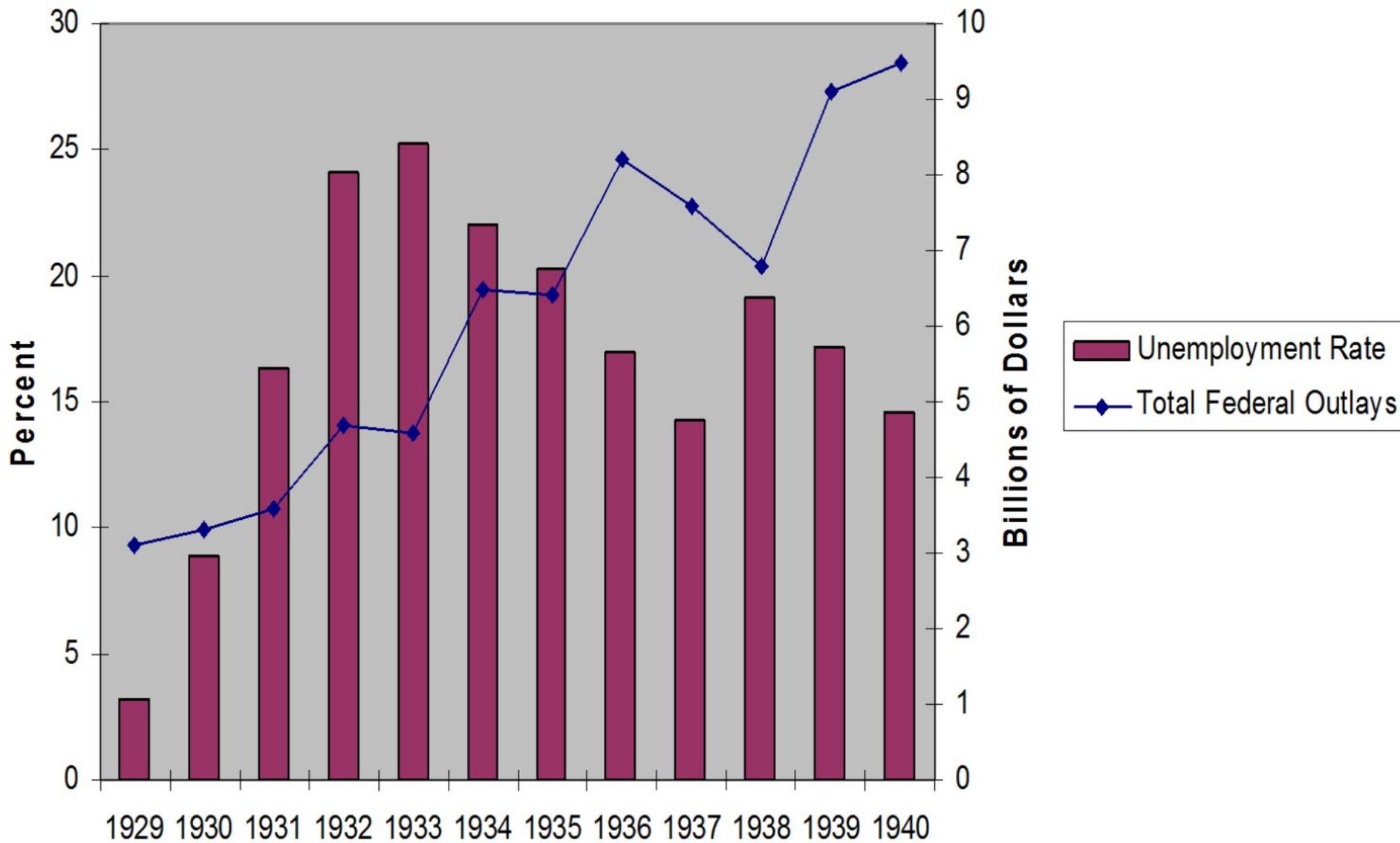
Keynes noted that even deficit spending by the government might be appropriate policy in certain circumstances.



# Federal Government Expenditures

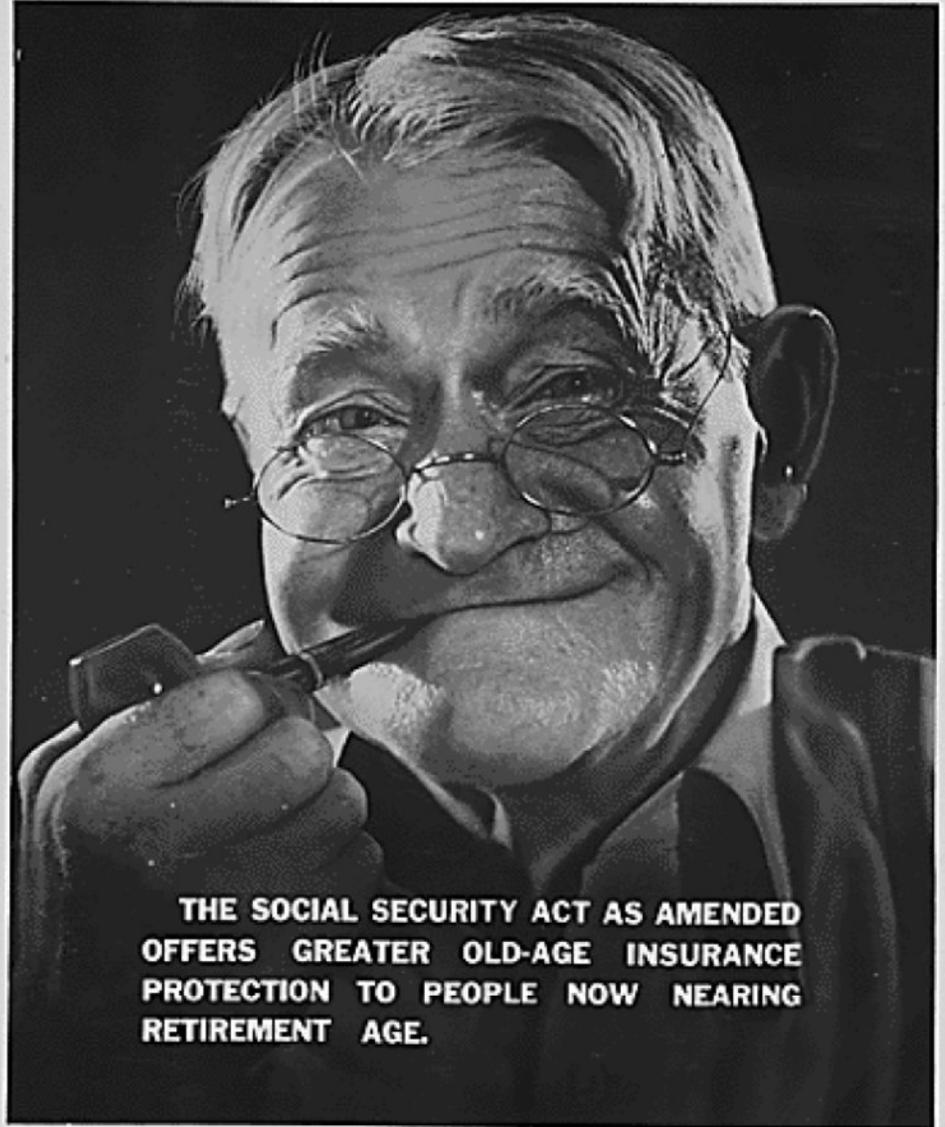


# Federal Government Reponse



Other fiscal policies of FDR's include the creation of a **Social Security tax...**

**MORE SECURITY FOR  
THE AMERICAN FAMILY**



**THE SOCIAL SECURITY ACT AS AMENDED  
OFFERS GREATER OLD-AGE INSURANCE  
PROTECTION TO PEOPLE NOW NEARING  
RETIREMENT AGE.**

**FOR INFORMATION WRITE OR CALL AT THE NEAREST FIELD OFFICE OF THE  
SOCIAL SECURITY BOARD**



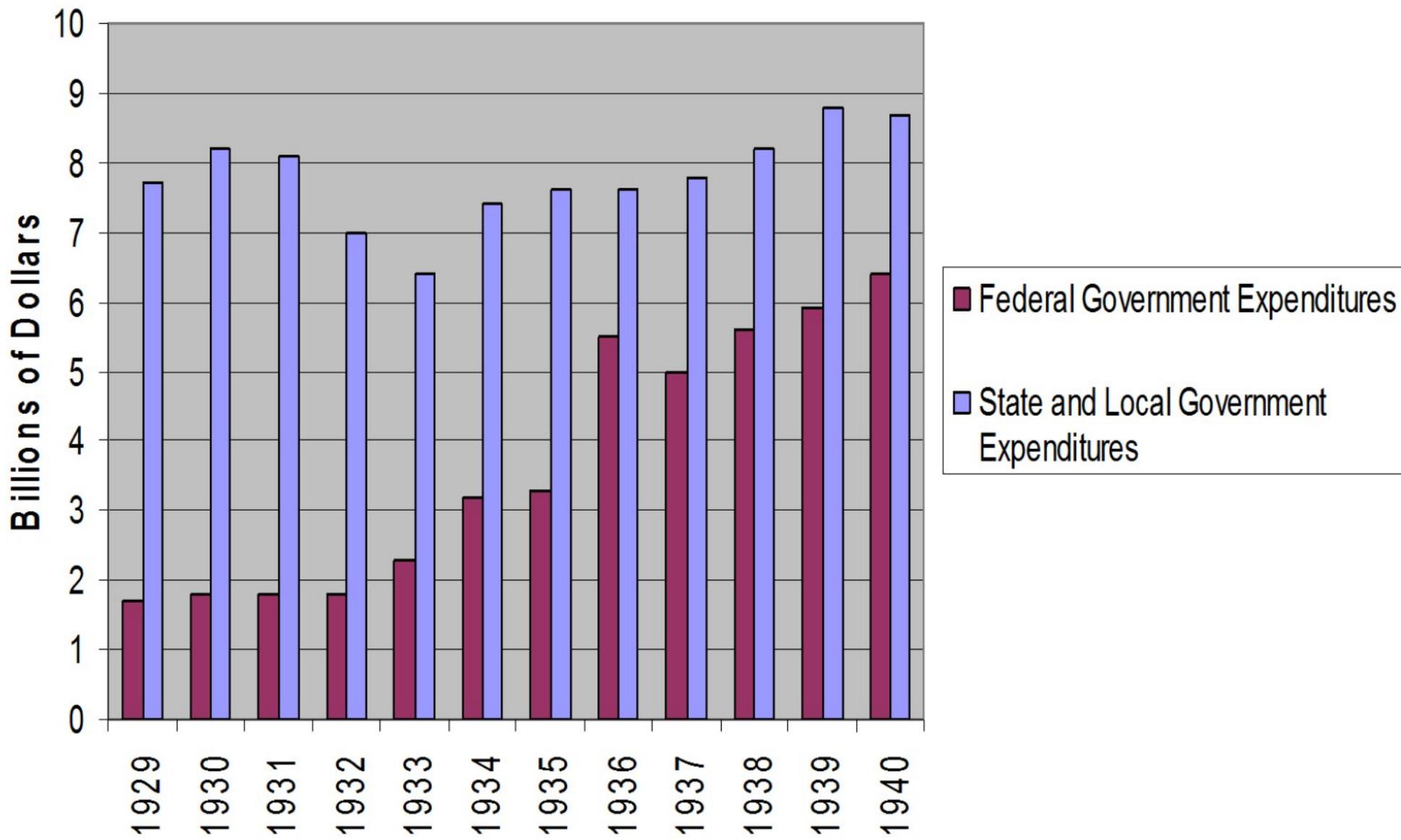
... and the  
**Agricultural Adjustment Act.**

**For example, to raise the price of agricultural products, the AAA attempted to reduce overproduction by paying farmers to destroy some of their crops.**





**Between 1933 and 1936,  
government expenditures  
rose by more than 83%  
and the deficit  
skyrocketed.**







Another tool for the U.S. government is **"Monetary Policy"** and is conducted by the **Federal Reserve System**, a quasi-government agency.

**Monetary Policy**  
is the deliberate  
regulation of the  
nation's  
**money supply**  
and **interest rates.**





There is a **direct relationship** between the nation's money supply and the level of business activity.

If the **supply of money** and **credit increases too rapidly**, the result will be a period of rising prices known as **inflation**.





During **inflationary** periods,  
the **purchasing power** of  
the dollar falls,  
meaning that people get  
less for what they spend.

It is the role of the **Federal Reserve** to watch the supply of money in circulation, altering it when necessary to avoid rapid inflation.



FDR worked with two types of reform for monetary policy:

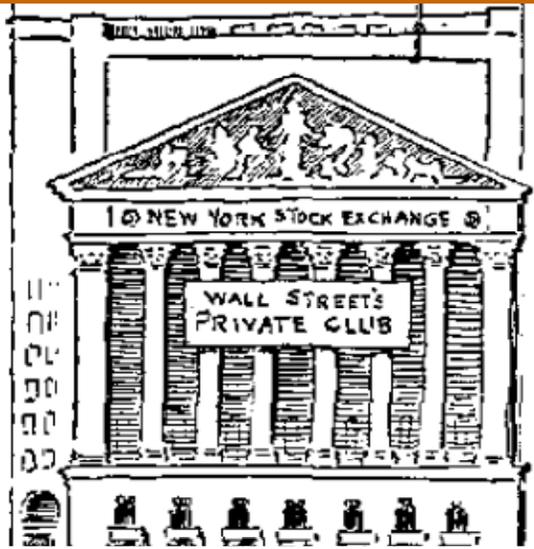
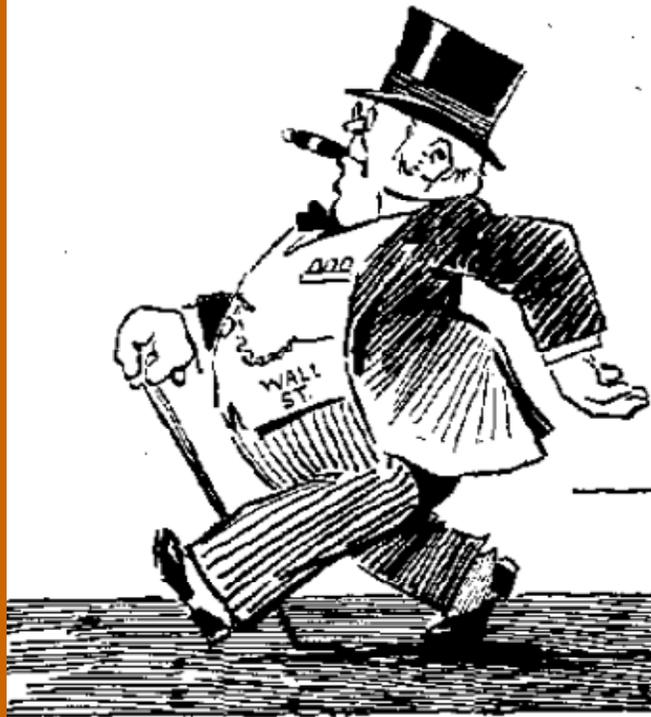
He wanted to stabilize both the stock market & the banking system.



The *Securities & Exchange Commission* (SEC) was created to regulate the stock market.



1929



1933



**The Federal Deposit  
Insurance Corporation  
(FDIC) was created  
to insure individual  
deposits at banks.**



**Eventually, the economy showed some signs of life.**





**Unemployment dropped to  
18% in 1935,  
but three years later  
returned to 20%.**

**But the stock market  
continued to slump through  
1938...**

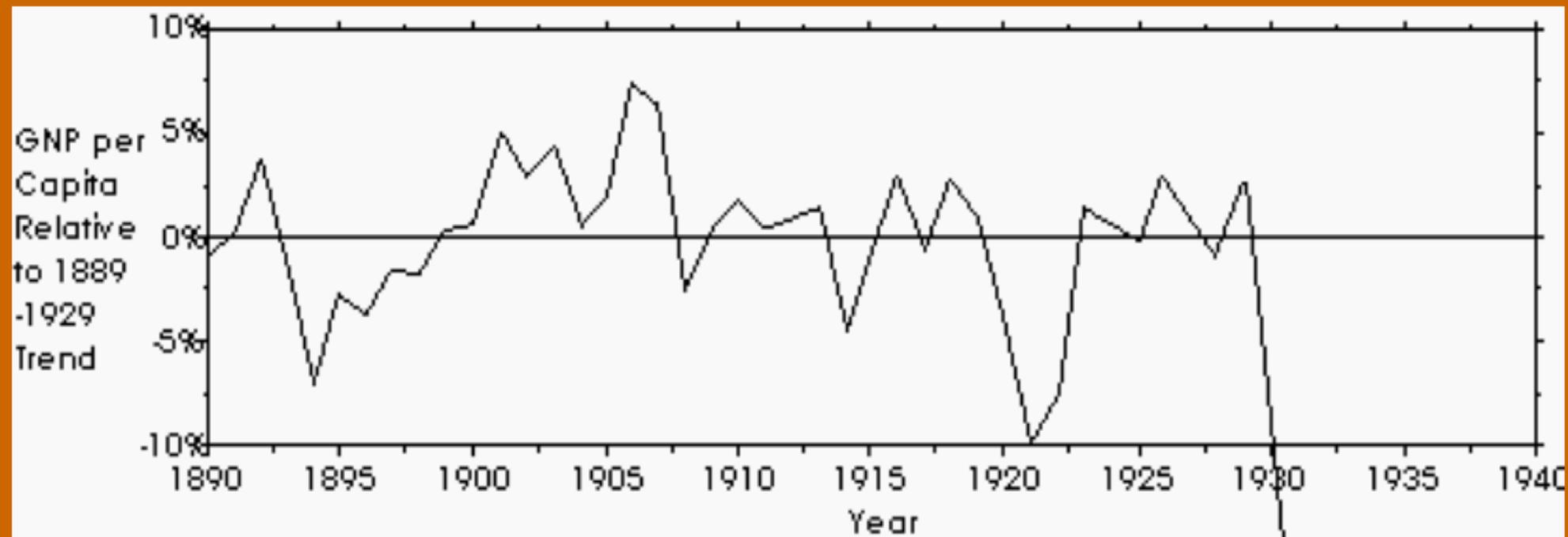


**On the eve of America's  
entry into World War II  
and 12 years after the  
stock market crash of  
Black Tuesday,  
ten million Americans  
were still jobless.**

Along with World War II  
came a **revival of trade**  
with America's allies.  
Government investment in  
war-related businesses  
fueled a powerful  
**post-war boom.**

**And the Great Depression**  
**finally ended.**







*Did the Great Depression  
Forever Change the  
American Economic Policy?*

- *What is the role of the  
government  
in preventing (or solving)  
economic downturns?*

## *Recall FDR's New Deal (1933-36)*

1. Banking Act: FDIC
2. Federal Farm Mortgage Corporation  
& Home Loan Corporation
3. Agricultural Adjustment Act
4. TVA
5. Public Works Administration
6. Works Project Administration
7. Securities Act
8. National Industry Recovery Act
9. Social Security Act
10. Wagner Act
11. Fair Labor Standards Act