5 Causes of The Great Depression

What caused the Great Depression, the worst economic depression in US history? It was not just one factor, but instead a combination of domestic and worldwide conditions that led to the Great Depression. As such, there is no agreed upon list of all its causes. Here instead is a list of the top reasons that historians and economists have cited as causing the Great Depression.
The effects of the Great Depression were huge across the world. Not only did it lead to the New Deal in America but more significantly, it was a direct cause of the rise of extremism in Germany leading to World War II.

1. Stock Market Crash of 1929 - Many believe erroneously that the stock market crash that occurred on Black Tuesday, October 29, 1929 is one and the same with the Great Depression. In fact, it was one of the major causes that led to the Great Depression. Two months after the original crash in October, stockholders had lost more than $40 billion dollars. Even though the stock market began to regain some of its losses, by the end of 1930, it just was not enough and America truly entered what is called the Great Depression.

2. Bank Failures - Throughout the 1930s over 9,000 banks failed. Bank deposits were uninsured and thus as banks failed people simply lost their savings. Surviving banks, unsure of the economic situation and concerned for their own survival, stopped being as willing to create new loans. This exacerbated the situation leading to less and less expenditures.

3. Reduction in Purchasing Across the Board - With the stock market crash and the fears of further economic woes, individuals from all classes stopped purchasing items. This then led to a reduction in the number of items produced and thus a reduction in the workforce. As people lost their jobs, they were unable to keep up with paying for items they had bought through installment plans and their items were repossessed. More and more inventory began to accumulate. The unemployment rate rose above 25% which meant, of course, even less spending to help alleviate the economic situation.

4. American Economic Policy with Europe - As businesses began failing, the government created the Smoot-Hawley Tariff in 1930 to help protect American companies. This charged a high tax for imports thereby leading to less trade between America and foreign countries along with some economic retaliation.

5. Drought Conditions - While not a direct cause of the Great Depression, the drought that occurred in the Mississippi Valley in 1930 was of such proportions that many could not even pay their taxes or other debts and had to sell their farms for no profit to themselves. The area was nicknamed "The Dust Bowl." This was the topic of John Steinbeck's *The Grapes of Wrath*.

1. According to this author, the causes of The Great Depression...
a. are agreed upon by all historical scholars.
b. are taught only in upper-level history courses in universities.
c. are not always agreed upon by everyone that studies history.
d. can only be understood by studying the economy of Great Britain.

2. As it is used in the second paragraph, the word 'erroneously' most likely means...
a. correctly
b. mistakenly
c. omnisciently
d. all of the above

3. According to the author, banks mostly failed because...
a. they had made too many loans.
b. people had put too much money in them.
c. they made too many business loans but not enough personal loans

d. they were uninsured.

4. According to reason #3 (Reduction in Purchasing Across the Board), which of the following would be a CAUSE and which would be an EFFECT?
a. Cause: The Great Depression affected all Americans. Effect: The Dust Bowl greatly impacted farms in middle America.
b. Cause: Businesses stopped making money and had to lay off employees. Effect: Americans stopped buying products.
c. Cause: Americans stopped buying products. Effect: Businesses stopped making money and had to lay off employees.
d. Cause: WWI finally came to an end. Effect: Demand for crops in the US rose dramatically.

5. The effect of the Dust Bowl on the American farmer could BEST be described as…
a. devastating.
b. a minor setback.
c. extraordinarily great.
d. awkward.

The Great Depression

"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?"

At the end of the 1920s, the United States boasted the largest economy in the world. With the destruction wrought by World War I, Europeans struggled while Americans flourished. Upon succeeding to the Presidency, Herbert Hoover predicted that the United States would soon see the day when poverty was eliminated. Then, in a moment of apparent triumph, everything fell apart. The stock market crash of 1929 touched off a chain of events that plunged the United States into its longest, deepest economic crisis of its history.

It is far too simplistic to view the stock market crash as the single cause of the Great Depression. A healthy economy can recover from such a contraction. Long-term underlying causes sent the nation into a downward spiral of despair. First, American firms earned record profits during the 1920s and reinvested much of these funds into expansion. By 1929, companies had expanded to the bubble point. Workers could no longer continue to fuel further expansion, so a slowdown was inevitable. While corporate profits, skyrocketed, wages increased incrementally, which widened the distribution of wealth.

The richest one percent of Americans owned over a third of all American assets. Such wealth concentrated in the hands of a few limits economic growth. The wealthy tended to save money that might have been put back into the economy if it were spread among the middle and lower classes. Middle class Americans had already stretched their debt capacities by purchasing automobiles and household appliances on installment plans.

There were fundamental structural weaknesses in the American economic system. Banks operated without guarantees to their customers, creating a climate of panic when times got tough. Few regulations were placed on banks and they lent money to those who speculated recklessly in stocks. Agricultural prices had already been low during the 1920s, leaving farmers unable to spark any sort of recovery. When the Depression spread across the Atlantic, Europeans bought fewer American products, worsening the slide.

When President Hoover was inaugurated, the American economy was a house of cards. Unable to provide the proper relief from hard times, his popularity decreased as more and more Americans lost their jobs. His minimalist approach to government intervention made little impact . The economy shrank with each successive year of his Presidency. As middle class Americans stood in the same soup lines previously graced only by the nation's poorest, the entire social fabric of America was forever altered.

1. The song lyric written at the beginning of the article was included to…
    a. Give the reader an idea of what it was like to live during colonial times.
    b. Allow the reader to see the desperation felt throughout the country during the depression.
    c. Inform the reader of the cause of the depression.
    d. Show the reader how the New Deal brought change.
2. Herbert Hoover's prediction could best be described as…
    a. Prophetic, because it came true.
    b. True, because it happened, just not in the time that he thought it would.
    c. False, because it took longer to happen than he originally thought.
    d. Ironic, because the exact opposite happened.
3. According to the 2^{nd} paragraph, the American economy could best be compared to…
    a. A train that crashed.
    b. A bubble that busted.
    c. A fire that continued to grow.
    d. An ocean wave that swallowed a boat.
4. According to the third paragraph, one cause of the Great Depression was…
    a. Wealth Inequality.
    b. The Dust Bowl
    c. Reliance on credit
    d. Tariffs on foreign imports.
5. According to the last paragraph, Hoover played what role in the depression?
    a. He gave too many government handouts that caused workers to get lazy.
    b. He wasted taxpayer dollars on the government bailout of big businesses.
    c. He did nothing, thinking it would fix itself.
    d. He only cared about the poor and middle incomes, and the upper class were suffering and did not have enough money to create more jobs.

The History Chanel Present: The Great Depression

The Great Depression (1929-39) was the deepest and longest-lasting economic downturn in the history of the Western industrialized world. In the United States, the Great Depression began soon after the stock market crash of October 1929, which sent Wall Street into a panic and wiped out millions of investors. Over the next several years, consumer spending and investment dropped, causing steep declines in industrial output and rising levels of unemployment as failing companies laid off workers. By 1933, when the Great Depression reached its nadir, some 13 to 15 million Americans were unemployed and nearly half of the country's banks had failed. Though the relief and reform measures put into place by President Franklin D. Roosevelt helped lessen the worst effects of the Great Depression in the 1930s, the economy would not fully turn around until after 1939, when World War II kicked American industry into high gear.

The Great Depression Begins: The Stock Market Crash of 1929

The American economy entered an ordinary recession during the summer of 1929, as consumer spending dropped and unsold goods began to pile up, slowing production. At the same time, stock prices continued to rise, and by the fall of that year had reached levels that could not be justified by anticipated future earnings. On October 24, 1929, the stock market bubble finally burst, as investors began dumping shares en masse. A record 12.9 million shares were traded that day, known as "Black Thursday." Five days later, on "Black Tuesday" some 16 million shares were traded after another wave of panic swept Wall Street. Millions of shares ended up worthless, and those investors who had bought stocks "on margin" (with borrowed money) were wiped out completely.

As consumer confidence vanished in the wake of the stock market crash, the downturn in spending and investment led factories and other businesses to slow down production and construction and begin firing their workers. For those who were lucky enough to remain employed, wages fell and buying power decreased. Many Americans forced to buy on credit fell into debt, and the number of foreclosures and repossessions climbed steadily. The adherence to the gold standard, which joined countries around the world in a fixed currency exchange, helped spread the Depression from the United States throughout the world, especially in Europe.

1. As it is used in the 1st paragraph, the word "nadir" could best be replaced with…
    a. Most useful state
    b. Lowest point
    c. Ironic outcome
    d. Peak of benefits.
2. According to the author, what helped end the Great Depression?
    a. WWII helped slightly, but FDR's New Deal helped the most.
    b. FDR's New Deal helped slightly, but WWII helped the most.
    c. Hoover's hands-off approach eventually paid off.
    d. Teddy Roosevelt busted the monopolies of railroads, helping workers make more money.
3. An economist would say that the events of Black Thursday helped cause the depression because…
    a. It increased demand for stocks.
    b. It decreased demand for stocks.
    c. It allowed the government to control the economy, proving the Red Scare was justified.
    d. It placed a tariff on all imported goods.
4. The author clarifies that "on margin" means "with borrowed money" because…
    a. They made the term up themselves and had to tell what it meant.
    b. Only people with doctorates in history know what the term actually means.
    c. They wanted to point out what a stupid, risky decision that was to make.
    d. They did not know what it meant while writing the article, so they had to look it up and wanted to share.
5. According to the last paragraph, the Depression could best be described as…
    a. An ugly, downward spiral.
    b. A car hitting the brakes immediately before crashing.
    c. An airplane forcing an emergency landing.
    d. A sickness that we found the cure for just in time.

The Great Depression Deepens: Bank Runs and the Hoover Administration

Despite assurances from President Herbert Hoover and other leaders that the crisis would run its course, matters continued to get worse over the next three years. By 1930, 4 million Americans looking for work could not find it; that number had risen to 6 million in 1931. Meanwhile, the country's industrial production had dropped by half. Bread lines, soup kitchens and rising numbers of homeless people became more and more common in America's towns and cities. Farmers (who had been struggling with their own economic depression for much of the 1920s due to drought and falling food prices) couldn't afford to harvest their crops, and were forced to leave them rotting in the fields while people elsewhere starved.

In the fall of 1930, the first of four waves of banking panics began, as large numbers of investors lost confidence in the solvency of their banks and demanded deposits in cash, forcing banks to liquidate loans in order to supplement their insufficient cash reserves on hand. Bank runs swept the United States again in the spring and fall of 1931 and the fall of 1932, and by early 1933 thousands of banks had closed their doors. In the face of this dire situation, Hoover's administration tried supporting failing banks and other institutions with government loans; the idea was that the banks in turn would loan to businesses, which would be able to hire back their employees.

FDR Addresses the Great Depression with the New Deal

Hoover, a Republican who had formerly served as U.S. secretary of commerce, believed that government should not directly intervene in the economy, and that it did not have the responsibility to create jobs or provide economic relief for its citizens. In 1932, however, with the country mired in the depths of the Great Depression and some 13-15 million people (or more than 20 percent of the U.S. population at the time) unemployed, Democrat Franklin D. Roosevelt won an overwhelming victory in the presidential election. By Inauguration Day (March 4, 1933), every U.S. state had ordered all remaining banks to close at the end of the fourth wave of banking panics, and the U.S. Treasury didn't have enough cash to pay all government workers. Nonetheless, FDR (as he was known) projected a calm energy and optimism, famously declaring that "the only thing we have to fear is fear itself."

Roosevelt took immediate action to address the country's economic woes, first announcing a four-day "bank holiday" during which all banks would close so that Congress could pass reform legislation and reopen those banks determined to be sound. He also began addressing the public directly over the radio in a series of talks, and these so-called "fireside chats" went a long way towards restoring public confidence. During Roosevelt's first 100 days in office, his administration passed legislation that aimed to stabilize industrial and agricultural production, create jobs and stimulate recovery. In addition, Roosevelt sought to reform the financial system, creating the Federal Deposit Insurance Corporation (FDIC) to protect depositors' accounts and the Securities and Exchange Commission (SEC) to regulate the stock market and prevent abuses of the kind that led to the 1929 crash.

The Great Depression: Hard Road to Recovery

Among the programs and institutions of the New Deal that aided in recovery from the Great Depression were the Tennessee Valley Authority (TVA), which built dams and hydroelectric projects to control flooding and provide electric power to the impoverished Tennessee Valley region of the South, and the Works Project Administration (WPA), a permanent jobs program that employed 8.5 million people from 1935 to 1943. After showing early signs of recovery beginning in the spring of 1933, the economy continued to improve throughout the next three years, during which real GDP (adjusted for inflation) grew at an average rate of 9 percent per year. A sharp recession hit in 1937, caused in part by the Federal Reserve's decision to increase its requirements for money in reserve. Though the economy began improving again in 1938, this second severe contraction reversed many of the gains in production and employment and prolonged the effects of the Great Depression through the end of the decade.

Depression-era hardships had fueled the rise of extremist political movements in various European countries, most notably that of Adolf Hitler's Nazi regime in Germany. German aggression led war to break out in Europe in 1939, and the WPA turned its attention to strengthening the military infrastructure of the United States, even as the country maintained its neutrality. With Roosevelt's decision to support Britain and France in the struggle against Germany and the other Axis Powers, defense manufacturing geared up, producing more and more private sector jobs. The Japanese attack on Pearl Harbor in December 1941 led to an American declaration of war, and the nation's factories went back in full production mode. This expanding industrial production, as well as widespread conscription beginning in 1942, reduced the unemployment rate to below its pre-Depression level.

When the Great Depression began, the United States was the only industrialized country in the world without some form of unemployment insurance or social security. In 1935, Congress passed the Social Security Act, which for the first time provided Americans with unemployment, disability and pensions for old age.

1. For farmers, the Great Depression was probably…
   a. not a huge deal, because they had been struggling for the past decade.
   b. catastrophic, because they had been enjoying success over the years.
   c. crippling, because of the government buyout on wheat and rice.
   d. energizing, because people could only afford to eat raw plants.

2. Which of the following BEST summarizes Hoover's view of the Great Depression?

   a. It was NOT the government's job to create jobs in the business sector.

   b. The government had not done nearly enough in the past to help out struggling businesses.

   c. The Great Depression was caused because of the gold standard.

   d. The Great Depression was caused by labor unions encouraging their employees to strike, which decreased productivity.

3. The first thing Roosevelt did after being elected to office was…

   a. Create the FDIC

   b. Declare a bank holiday

   c. Create the SEC

   d. Deliver a fireside chat.

4. How would a member of the Socialist Party have felt about the creating of the TVA?

   a. Excited, because the government was taking over one of the private business sectors.

   b. Disappointed, because the government could now shut off their electricity.

   c. Overjoyed, because none of them had previously been able to use electricity.

   d. Skeptical, because now they would be using hydroelectricity, which was very unreliable.

5. The Social Security Act made the United States…

   a. The first industrialized country to offer anything like it.

   b. The last industrialized country to offer it.

   c. Get out of debt immediately.

   d. The poorest country in the world.