

## **CAUSES OF THE GREAT DEPRESSION**

"A chicken in every pot *and a car in every garage.*"

-President Hoover

### **1. Farmers Hit Hard**

- Farmers bought land and machinery with credit during WWI
- Post war demand dropped and farmers suffered from overproduction
- Farm income dropped 60% and 1/3 of farmers lost their land
- Drought and dust storms served as the last straw

### **2. False Prosperity**

- Overdependence on mass production, consumer spending, advertising, welfare capitalism, tariffs
- Uneven distribution of wealth
- 60% population earned less than \$2000
- Top 5% earned 33% of income
- Credit hides the problems

### **3. Stock Market Crash**

- Speculation
- Buying on Margin
- Stock prices set at unrealistic levels
- Panic selling

### **4. Bank Failures**

- Banks invested heavily in the stock market
- Many people "ran" to the bank to withdraw funds
- Over 9000 banks failed in 1930
- High interest rates set by the federal reserve restricted the amount of \$ available

### **5. Reduction in Purchasing/Unemployment**

- Stock Market losses slowed spending by consumers
- Ripple effect closed factories and lost jobs
- Unemployment rose to 25%
- Workers were unable to pay back credit loans or buy new goods

## **6. American Economic Policy with Europe/Trade**

- Hawley-Smoot Tariff was enacted to protect U.S. businesses
- U.S. Banks stopped loaning money to Europe due to credit squeeze
- Europe was unable to buy U.S. products because of tariffs and lack of loans

## **7. Republican Policy (Hoover's Response)**

- Laissez Faire, balance budgets, trickle down economics,
- No use of monetary or fiscal policies
- Volunteerism
- Localism
- Reconstruction Finance Corporation

### **Volunteerism**

- Businesses will voluntarily keep employment, wages, and prices at the same level
- Wealthy members of society will donate more to charity
- Reduce taxes, lower interest rates, increase public works programs

### **Localism**

- State and local governments provide more relief to citizens
- Federal government no direct relief to Americans
- Hoover favored rugged individualism over government bail-outs and assistance

### **Reconstruction Finance Corporation**

- Trickle down economics
- Government lent money to banks and large corporations
- Banks kept the money and businesses did not hire new workers