SECTION 1

The Great Crash

Before You Read

Main Idea

The stock market crash of 1929 revealed weaknesses in the American economy and helped trigger a spreading economic crisis.

Reading Focus

1. What economic factors and conditions made the American economy appear prosperous in the 1920s?
2. What were the basic economic weaknesses in the American economy in the late 1920s?
3. What events led to the stock market crash of October 1929?
4. What were the effects of the crash on the economy of the United States and the world?

Key Terms and People

gross national product
Herbert Hoover
buying on margin
Federal Reserve System
Black Tuesday

TAKING NOTES

Calm Before the Storm

THE INSIDE STORY

How did Americans behave on the eve of disaster? For many people in the 1920s, investing in the stock market was one big joyride. Week after week, month after month, stock prices steadily rose. After a while, it seemed like making money on Wall Street was a sure thing.

With so many fortunes being made, it was easy to ignore the warning signs that began to appear in the fall of 1929. The economy had began to slump. Consumers weren't buying as much. Products were piling up on factory floors. A handful of experts whispered that trouble lay in store for the stock market.

On Thursday, October 24, 1929, those whispers became reality. By the end of the day, the value of the stocks traded on the New York Stock Exchange had plunged by 9 percent. Years of investment gains—billions of dollars—were wiped out in a few hours.

Major banks and stockbrokers tried to rally the market on Friday. They bought large numbers of stocks, hoping to keep prices from dropping still more. Over the anxious weekend of October 26 and 27, stockbrokers worked quietly to reassure investors. They made phone calls and wrote letters to major investors urging them to buy stocks when the markets reopened on Monday. But nothing could answer the questions on everyone's minds. On Monday morning, which way would prices go—up or down? Were the good times about to come to an end? ■

▲ Stockholders anxiously gather outside the New York Stock Exchange after news of the crash on October 29, 1929.

An Appearance of Prosperity

The 1920s may not have been good times for everyone. Most farmers, for instance, saw their incomes drop. But for the economy as a whole, the "Roaring Twenties" were a period of impressive and sustained growth. Between 1922 and 1928, the **gross national product** (GNP)—the total value of goods and services produced in a nation during a specific period—rose by 30 percent. At a time when most people's understanding of the economic matters was relatively limited, such rapid growth triggered a feeling of optimism that proved contagious. That optimism, however, led to reckless activities.

The explosive growth of American manufacturing, particularly the new automobile industry, helped drive the expansion of the American economy. By 1929 one in five Americans owned a car. Industries that made products related to automobile production—including steel, oil, and rubber—enjoyed unprecedented business opportunities. Overall, the automobile industry and related industries employed nearly 4 million workers.

As corporate profits swelled, companies hired additional factory workers to keep up with production needs. Unemployment between 1923 and 1929 remained very low, averaging around 3 percent. Low unemployment, in turn, slowed the growth of organized labor. Union membership dropped as employers expanded welfare capitalism programs.

As you read earlier, welfare capitalism is a term for various benefits, such as employer-paid insurance, which companies provide to employees as a way of improving worker loyalty and satisfaction. Such programs helped increase workers' sense of prosperity and well-being in the 1920s.

This feeling of prosperity encouraged many workers to purchase the new products coming off the nation's assembly lines. With their shorter work hours and bigger paychecks, Americans flocked to movie theaters, sporting events, and other leisure activities. Times, it seemed, were good.

Academic Vocabulary
specific particular

Stock market expansion While Americans generally were feeling good about the economy in the 1920s, those who invested in the stock market were overjoyed. The stock market is a place where stocks are bought and sold. *Stock* is ownership in a company, and it is sold in *shares*. In other words, by buying shares of stock, a person is able to buy a piece of a corporation. If the corporation succeeds, its value may rise. This means that the value of its stock also rises. If the corporation does not do well, it may lose value. This would drive the value of the stock down.

The False Sense of Security

Positive economic trends masked the trouble that lay ahead.
- The stock market had been booming for a decade.
- Corporate profits soared.
- Unemployment was low.
- Welfare capitalism and credit increased workers' buying power.

The American stock market performed spectacularly during the 1920s. Although stocks increased at different rates, the general trend in stock prices was sharply upward. Between 1920 and 1929 the overall value of stocks traded at the nation's stock markets quadrupled.

The steep rise in stock prices changed the way many people thought about buying stocks. Since the market never seemed to go down in the 1920s, many people began to act as though it never would.

A growing number of ordinary Americans began to make stock investments. To *invest* means to put money into stocks, land, or some other location in the hope that the value of this money will grow.

The number of shares being traded in the United States rose sharply during the 1920s. The number rose from 318 million in 1920 to more than 1 billion in 1929. Many investors were encouraged by the words of men such as John Raskob, a leader of General Motors.

THE ELECTION OF 1928

Candidate	Political Affiliation	Electoral Votes	Popular Votes
Herbert C. Hoover	Republican	444	21,391,381
Alfred E. Smith	Democratic	87	15,016,443

GEOGRAPHY SKILLS **INTERPRETING MAPS**

The nation was experiencing an era of prosperity under a Republican administration during 1928 presidential election.

Region *Most of the nation voted for the candidate of what party affiliation? In what region was Smith's support concentrated?*

See **Skills Handbook**, p. H20

HISTORY'S VOICES

"If a man saves $15 a week and invests in good common stocks . . . at the end of 20 years, he will have at least $80,000 and . . . $400 a month. He will be rich. And because income can do that, I am firm in my belief that anyone not only can be rich, but ought to be rich.**"**

—John J. Raskob, "Everyone Ought to Be Rich," *Ladies' Home Journal*, August 1929

Faith in business and government For many Americans, the prosperity of the 1920s demonstrated the triumph of American business. Presidents Harding and Coolidge favored policies that gave businesses the maximum freedom to achieve and succeed. As Coolidge once famously remarked, "The chief business of the American people is business."

This approach was popular with the majority of voters. Harding had won a clear victory in the 1920 election, and Coolidge did the same in 1924. Coolidge in particular remained widely popular throughout his term in office. Public confidence in the federal government and in its pro-business policies remained very high.

The election of 1928 Coolidge decided not to run for reelection in 1928, so the Republicans chose **Herbert Hoover** as their candidate. Hoover had never held elective office, but he had an impressive record of public service. He had overseen America's food production during World War I and later directed relief efforts in Europe. He also served as the secretary of commerce under Harding and Coolidge.

By 1928 Hoover had built an outstanding reputation as a businesslike administrator—just the sort of leader who could guide the prosperous nation. Indeed, people thought so highly of Hoover that it troubled him. "They have a conviction that I am sort of superman, that no problem is beyond my capacity," he once said. "If some unprecedented calamity should come upon the nation . . . I would be sacrificed to the unreasoning disappointment of a people who expected too much."

Hoover and the Democratic candidate, Al Smith, presented the nation with a stark contrast. Smith was an outgoing and natural politician. Hoover was quiet and shy by comparison. Smith was a Catholic—the first ever to run for president—and drew much of his support from Catholic urban immigrant populations. Hoover was a Quaker, and many of his supporters did not trust Catholics. His support was strongest in small towns.

The two men also differed on Prohibition. Smith supported alcohol sales, while Hoover supported Prohibition. In short, the contest represented many of the cultural conflicts that had divided the nation in the 1920s. Hoover won an easy victory.

READING CHECK **Identifying Cause and Effect** *How did the rise of the stock market affect American investors?*

Economic Weaknesses

The economic prosperity of the 1920s helped define the decade. Yet while many Americans celebrated their financial good fortune, a number of serious problems bubbled just beneath the surface.

Wealth distribution One troubling aspect of the American economy was the vastly uneven distribution of the new wealth that was being created. Despite the boom in business in the 1920s, a surprisingly small number of people had truly prospered. As a group, the wealthiest 1 percent of the population had seen their share of the national income grow 60 percent between 1920 and 1929. Most workers, however, experienced much smaller pay increases—about 8 percent for most job categories.

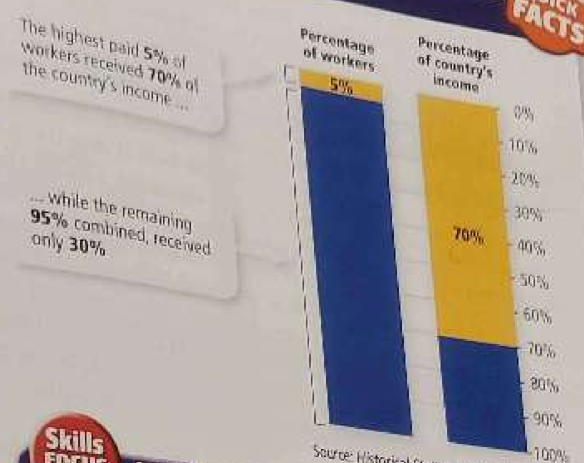
Workers in certain industries, such as farming and coal mining, were hit particularly hard. By 1929 more than 70 percent of the nation's families had an income below the level they needed for a good standard of living. The personal savings rate declined noticeably during the decade as well.

For much of the decade, the easy availability of credit had allowed many Americans to buy the automobiles, radios, vacuum cleaners, and other products rolling quickly off the nation's assembly lines. By the end of the decade, however, many consumers were reaching the limits of their credit. The pace of purchases slowed. Warehouses became filled with factory goods that no one could afford to buy.

Credit and the stock market Installment credit was not just a tool for buying consumer products. Investors also used credit to purchase

DISTRIBUTION OF WEALTH, 1929

QUICK FACTS



Source: Historical Statistics of the United States

Skills FOCUS **INTERPRETING GRAPHS**

The 1920s prosperity was more illusion than reality. The uneven distribution of the nation's wealth is shown in this bar graph. *What share of the nation's wealth did the top 5 percent of workers own? What did the remaining 95 percent own?*

See **Skills Handbook**, p. H16

stocks. This risky practice increased during the 1920s as the stock market rose sharply.

Here is how it worked: Imagine an investor wanted to buy 100 shares of stock in Company A at $10 a share. The total purchase price would be $1,000. To make this purchase, the investor would pay just a portion of the $1,000—say, for example, $500. The investor would borrow the other $500 from a stockbroker. The understanding was that the investor would pay off the loan when he or she sold the stock. Buying stocks with loans from stockbrokers is known as **buying on margin.**

As enthusiasm for investing in the stock market grew, brokers began to require lower and lower margins for stock purchases, giving bigger and bigger loans to investors. In 1929 an investor could purchase a stock with as little as a 10 percent margin. In a time when many stocks were gaining value by the day, margin buying seemed like an easy way to make money.

Buying on margin, however, involved enormous risks. Returning to the example of Company A, say its stock price rose to $15 a share. The investor then could sell the stock for $1,500. In this case, the investor would get back the original $500 investment, be able to repay the $500 loan, and still have a $500 profit—doubling the original investment. But if the stock price dropped to $5 a share, the sale then would bring in just $500. All of this would go to pay off the loan. The investor would have no profit and be out the original $500 as well.

The terms of a margin loan made the gamble even riskier for the investor. Under these terms, brokers could force investors to repay their loans if the stock's value fell below a certain point. Such a demand was called a margin call. In theory, margin calls ensured that brokers would get their loans repaid. Margin calls also meant that investors could be in big trouble if their stocks lost value suddenly.

THE IMPACT **TODAY**

Economics

Today the Federal Reserve Board places strict limits on the practice of buying on margin.

The Federal Reserve The nation's fascination with stocks and with buying on margin drew the concern of the governing board of the **Federal Reserve System**, which serves as the nation's central bank. The Federal Reserve Board takes actions and sets policies to regulate the nation's money supply in order to promote healthy economic activity. In the late 1920s, the Federal Reserve Board decided to make it more difficult and more costly for brokers to offer margin loans to investors.

The Federal Reserve's move was partly successful, at least at first. Borrowing from banks by brokers began to decrease, but it was replaced by money from a new source. Large American corporations began providing brokers with the cash to make margin loans to investors. As a result, the run-up of the stock market continued despite the Federal Reserve's actions.

In September 1929, economist Roger Babson sounded a warning note. "Sooner or later," he said, "a crash is coming, and it may be terrific." The crash he was anticipating was a sudden drop in stock prices, which could devastate those who had borrowed heavily to buy stock.

Many experts, however, dismissed Babson's worries. In October, banker Charles E. Mitchell responded to the warnings of people such as Babson. Mitchell said, famously, "I see no reason for the end-of-the-year slump which some people are predicting." He could not have been more wrong.

READING CHECK **Summarizing** What were some of the weaknesses of the economy in the 1920s?

The Stock Market Crashes

While Babson and Mitchell were making their contrasting predictions about the future of the stock market, American investors looked back on several years of fantastic success. The steady growth of the early and mid-1920s had given way to truly astounding gains as the decade neared its end. One leading measure of the market's value showed a 50 percent gain in 1928 alone. During the following year, 1929, the market gained another 27 percent before reaching its high point on September 3.

Many people in the financial world, however, were beginning to recognize increasing signs of trouble in the economy. Sales of some manufactured goods were sagging badly. Rumors spread that some big investors were getting ready to take their money out of the market. Fears began to grow that current stock prices could soon collapse. The stage was set for an economic disaster.

On Thursday, October 24, 1929, some nervous investors began selling stocks. As others noticed the increased activity, they joined in the selling, afraid to be left behind. A huge sell-off had begun. With few people willing to buy the millions of stocks flooding the market,

...onomy, combined with ...ancial practices, set the stage for the stock market crash. Worried investors (at left) crowded Wall Street on Black Tuesday to await news.

Causes of the 1929 Stock Markt Crash

QUICK FACTS

Economic Factors

- Poor distribution of wealth
- Many consumers relied on credit
- Credit dried up
- Consumer spending dropped
- Industry struggled

Financial Factors

- Stock markets rise in mid-1920s
- Speculation in stock increases
- Margin buying encouraged by Federal Reserve policies
- Stock prices rise to unrealistic levels

Stock Market Crash

stock prices plunged, triggering an even greater panic to sell. One newspaper described it as "the most terrifying stampede of selling ever experienced on the New York Stock Exchange."

HISTORY'S VOICES

> "Traders on the floor of the Stock Exchange shrieked and howled their offers for desperate minutes before they found takers. Such a roar arose from the Stock Exchange floor that it could be heard for blocks up and down Broad and Wall Streets."
>
> —*Seattle Post-Intelligencer,* October 25, 1929

Toward the end of this terrible day, a number of leading bankers joined together to buy stocks and prevent a further collapse in their prices. This effort succeeded in stopping the panic—for a time. The market returned to normal trading on Friday, and some stocks actually gained value.

When traders returned to work on Monday, however, the good feelings from Friday had completely evaporated. As trading began that day, the market sank like a stone. The next day—Tuesday, October 29—was the worst of all. As panic completely overcame the markets, investors dumped more than 16 million shares of stock. While the sell-offs of earlier days had affected mainly the stocks of weaker businesses, the collapse on Black Tuesday affected the stock of even the most solid companies.

The damage was widespread and catastrophic. During October, the stock market dropped in value by about $16 billion. This represented nearly one-half of the market's pre-crash value.

"It was like a thunderclap," one investment banker recalled. "Everybody was stunned."

Devices called ticker-tape machines communicated a steady stream of falling stock prices. One reporter described the scene on October 29 as horrified investors watched the ticker tape.

HISTORY'S VOICES

> "[T]he crowds about the ticker tapes, like friends about the bedside of a stricken friend, reflected in their faces the story the tape was telling. There were no smiles. There were no tears either. Just the camaraderie of fellow-sufferers. Everybody wanted to tell his neighbor how much he had lost. Nobody wanted to listen. It was too repetitious a tale."
>
> —*The New York Times,* October 30, 1929

READING CHECK **Sequencing** Briefly describe the events of the stock market crash from October 24 through October 29, 1929.

Banking Crisis
The stock market crash triggered a banking crisis. By 1933 more than 5,000 banks had shut their doors.

Gross National Product
In the aftermath of the crash, U.S. GNP fell by nearly one half—from $103.1 billion in 1929 to $55.6 billion in 1933.

World Economy
The effects of stock market crash rippled through the world economy. In Germany, industrial productivity plunged by more than 40 percent.

Fallen on Hard Times

A Wall Street speculator (above) tries to sell his car after losing his wealth in the stock market crash. Margin calls left many such investors desperate for cash. ***What other effects did the stock market crash have on individuals ?***

The Granger Collection, New York

The Effects of the Crash

In the aftermath of the crash, business and political leaders rushed to calm the panic and reassure the nation. One business executive wrote optimistically in the days following Black Tuesday, "The recent collapse of stock market prices has no significance as regards the real wealth of the American people as a whole." President Hoover also downplayed the effects of the crash. He and many others firmly believed that the economy would soon recover from the shock and return to prosperity.

The impact on individuals No one denied, however, that the stock market collapse had ruined many individual investors. Some had lost years of gains. Huge fortunes disappeared before their eyes.

Margin buyers were particularly hard hit. When stock prices began to fall, brokers demanded that they pay back the borrowed money. To meet these margin calls, investors were forced to sell their shares for far less than they had paid for them. Some lost their entire savings trying to make up the difference. In the end, investors often owed enormous amounts of money to their brokers for stocks they had been forced to sell below cost.

Effects on banks The stock market crash triggered a banking crisis. Frightened depositors rushed to withdraw their money, draining banks of funds. Worse, many banks had themselves invested, directly or indirectly, in the stock market. They had purchased stock in companies whose shares were now crumbling in value. In addition, banks had made loans to stockbrokers, who in turn had loaned the money to investors on margin. When individual investors failed to cover their margins, the banks absorbed losses, too.

These loan failures eventually drove many banks out of business. As you will read in the next section, the struggles of the banks would have a deep impact on the American people.

Effects on business The crash delivered a crushing blow to already struggling businesses. With money scarce, banks and investors were suddenly unwilling or unable to provide industry with the money it needed to grow and expand.

At the same time, consumers cut back their spending on everything but essential purchases. With consumers spending less, many companies began to lay off workers. Unemployed workers had even less money to make purchases, and the cycle of layoffs and reduced consumer spending accelerated quickly.

In the year that followed the great crash, Americans saw their wages drop by a total of $4 billion. Nearly 3 million people lost their jobs. Faced with an uncertain future and lower incomes, consumers, who had driven the prosperity of the 1920s, simply stopped spending.

Effects overseas The crisis that began in the United States soon rippled throughout the industrialized world. The fragile economies of Europe, still recovering from World War I, were thrown backward. American banks that had lent heavily to European businesses and governments now called in those loans.

In many cases businesses and governments alike simply did not have the money to pay back the loans. Moreover, with buying power down in the United States, foreign businesses were less able to export their products here. They responded by laying off workers. Just as in the United States, laying off workers in Europe meant that there was less money in the hands of consumers to buy products.

Governments in the United States and in countries around the world moved to protect their own industries by passing high tariffs. A high tariff would make imported goods more expensive than those made at home. Leaders in each country hoped that high tariffs would benefit their local manufacturers.

Unfortunately, the high tariff actually did more harm than good to the American and world economies. As you will read, the decline in world trade that took place in the 1930s created misery around the world. It was one of the several factors that contributed to the nation's slide into what came to be called the Great Depression.

THE IMPACT TODAY

Economics

Today an international organization called the World Trade Organization (WTO) oversees many trade agreements between nations. Its goal is to reduce trade barriers such as tariffs.

READING CHECK **Identifying Cause and Effect** How did the stock market crash affect banks?

go.hrw.com
Online Quiz
Keyword: SD7 HP21

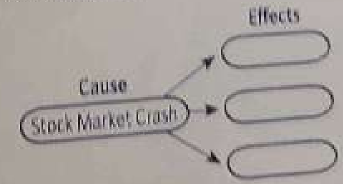
SECTION 1 ASSESSMENT

Reviewing Ideas, Terms, and People

1. **a. Define** Write a brief definition for the following term: gross national product
   b. Identify Cause and Effect What effect did America's mood have on individuals' financial decisions?
   c. Evaluate Defend the widespread American investment in stocks in the 1920s.
2. **a. Recall** Name two signs of weakness in the American economy in the 1920s.
   b. Analyze Why is it significant that much of the nation's wealth was owned by a small number of people?
   c. Predict How might the lack of available credit hurt the nation's economy in the 1930s?
3. **a. Identify** What was **Black Tuesday**?
   b. Sequence Describe how the drop in the stock market brought ruin to so many investors.
   c. Elaborate Why would an investor who had not bought stocks on margin have been in a better position to survive the crash than one who had?
4. **a. Describe** How did the crash affect individual investors, brokers, and banks?
   b. Summarize Why did the stock market crash have such a powerful impact on the overall economy?
   c. Evaluate Defend Hoover's belief that the economy would soon recover.

Critical Thinking

5. **Understanding Cause and Effect** Copy the chart below and use information from the section to identify effects of the stock market crash on the American economy.



FOCUS ON WRITING

6. **Persuasive** Write a letter to a friend in which you urge him or her to be careful about making stock market investments. Use information from the chapter to support your position.

SECTION 2

Americans Face Hard Times

BEFORE YOU READ

MAIN IDEA

The Great Depression and the natural disaster known as the Dust Bowl produced economic suffering on a scale the nation had never seen before.

READING FOCUS

1. How did the Great Depression develop?
2. What was the human impact of the Great Depression?
3. Why was the Dust Bowl so devastating?

KEY TERMS AND PEOPLE

hobo
Great Depression
foreclosure
Hooverville
drought
Dust Bowl
Okie
Woody Guthrie

TAKING NOTES As you read, take notes to identify the causes and effects of the Great Depression. Record your notes in a graphic organizer like the one shown here.

Causes
↓
Great Depression
↓
Effects

Teenage HOBOES

THE INSIDE STORY ***Where do you go when you have no place to go?*** Some of them decided on their own to leave home. Others were told to leave by their parents because there simply was no money to care for them. In either case, tens of thousands of teenagers faced a stark reality during the Great Depression. They had to find their future on the road.

At the height of the Great Depression, as many as a quarter of a million teenagers were wandering the nation, riding the railroads from town to town. With no families to support or protect them, they joined the ranks of the jobless, homeless wanderers known as **hoboes**.

For the young hoboes of the Depression—boys and girls, black and white, some less than 16 years old—the daily task was to survive. The lucky ones found or formed communities with other homeless people, who were primarily adults. The unlucky ones fell prey to abuse and violence.

Young women often disguised themselves as boys in order to reduce the dangers they faced. African Americans often had the threat of racial violence added to the hardships of the road.

Homeless teenagers riding the rails or walking the back roads became a familiar sight in the years of the Great Depression. Along with millions of others, they formed part of the human face of the economic catastrophe that followed the crash. ■

◀ **Thousands of youths experienced the grim life of a hobo.**

The Development of the Great Depression

With the crash of the stock market, the boom times of the 1920s came to an end. The crash and its aftermath revealed serious flaws in the American economy. These flaws helped transform a stock market crisis into the **Great Depression**, the most severe economic downturn in the history of the United States.

Bank failures As you have read, the collapse of the stock market strained the financial resources of many banks. In the weeks following the crash, a number of those banks failed. For ordinary Americans, the collapse of banks was an especially unnerving new development. Most people did not have money invested in stocks, but many had entrusted their savings to banks.

Today, most Americans do not have to worry that they will lose their savings if their bank goes out of business. Insurance from the federal government protects most people's deposits in the event of bank failure. In addition, laws today require that a bank keep a greater percentage of its assets in cash, to be paid out to depositors on request.

In 1929 there was no such deposit insurance, and with little cash on hand, banks were vulnerable to "runs." A run occurred when nervous depositors, suspecting a bank might be in danger of failing, rushed to withdraw their savings. A run could quickly drain a bank of its cash reserves and force the bank to close.

In the months following October 1929, bank runs struck across the country. Hundreds of banks failed. In late 1930 the rate of failures turned from frightening to disastrous. In December alone almost 350 banks closed. Included was the enormous Bank of the United States, which once had boasted about 400,000 depositors. By 1933 U.S. bank failures had wiped out billions of dollars in savings, on top of losses from the stock market crash.

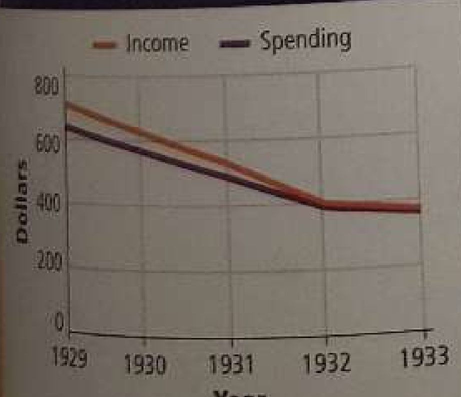
Farm failures The hard times farmers had faced in the 1920s only worsened with the onset of the Great Depression. Widespread joblessness and poverty reduced Americans' ability to buy food. Many people simply went hungry. With farmers producing more than they could sell, farm prices sank. By 1933 prices were down more than 50 percent from their already low 1929 levels. Lower prices meant lower income for farmers.

ACADEMIC VOCABULARY
asset financial holdings or resources

QUICK FACTS

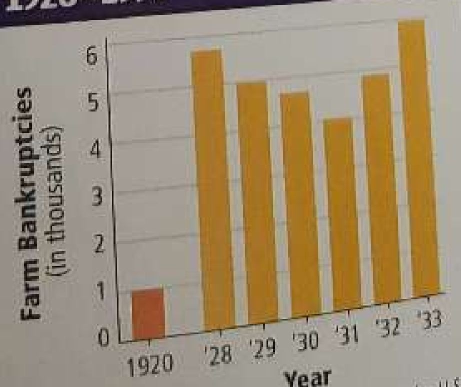
Economic Impact of the Great Depression

AVERAGE INCOME AND SPENDING, 1929–1933



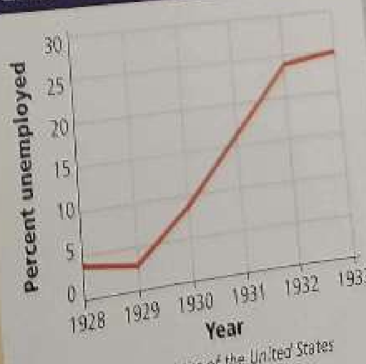
Source: Historical Statistics of the United States

FARM BANKRUPTCIES, 1928–1933



Source: Farmer Bankruptcies and Farm Exits in the U.S., 1899-2002

UNEMPLOYMENT RATES, 1928–1933



Source: Historical Statistics of the United States

Skills FOCUS INTERPRETING GRAPHS

1. How did declining income affect Americans' spending habits?
2. Compare unemployment rates in 1928 and 1933.

See **Skills Handbook**, p. H16, H17

It was typical for farmers to borrow money from banks to pay for land and equipment. As their incomes dropped, many farmers were unable to make the payments on their loans. In 1933 alone, some 364,000 farms went bankrupt or suffered foreclosure. **Foreclosure** occurs when a bank or other lender takes over ownership of a property from an owner who has failed to make loan payments.

Unemployment The year following the crash of October 1929 saw a sharp drop in economic activity and a steep rise in unemployment. Such negative trends are not uncommon in a time of economic downturn. What made the Great Depression different was the extent and the stubborn duration of these trends.

By 1933 the gross national product had dropped more than 40 percent from its pre-crash levels. Unemployment reached a staggering 25 percent. In some places and among some groups, the number was even higher. In the African American neighborhood of Harlem in New York City, for example, unemployment reached 50 percent in 1932.

READING CHECK **Making Generalizations** What happened to the economy in the early 1930s?

The Human Impact of the Great Depression

The Great Depression was an economic catastrophe. Yet statistics tell only part of the story. The true measure of the disaster lies in how it affected the American people.

Hoovervilles and hoboes With millions of people out of work, the competition for jobs became fierce. Thousands of workers would apply for a handful of jobs, and the winners knew they were lucky.

HISTORY'S VOICES

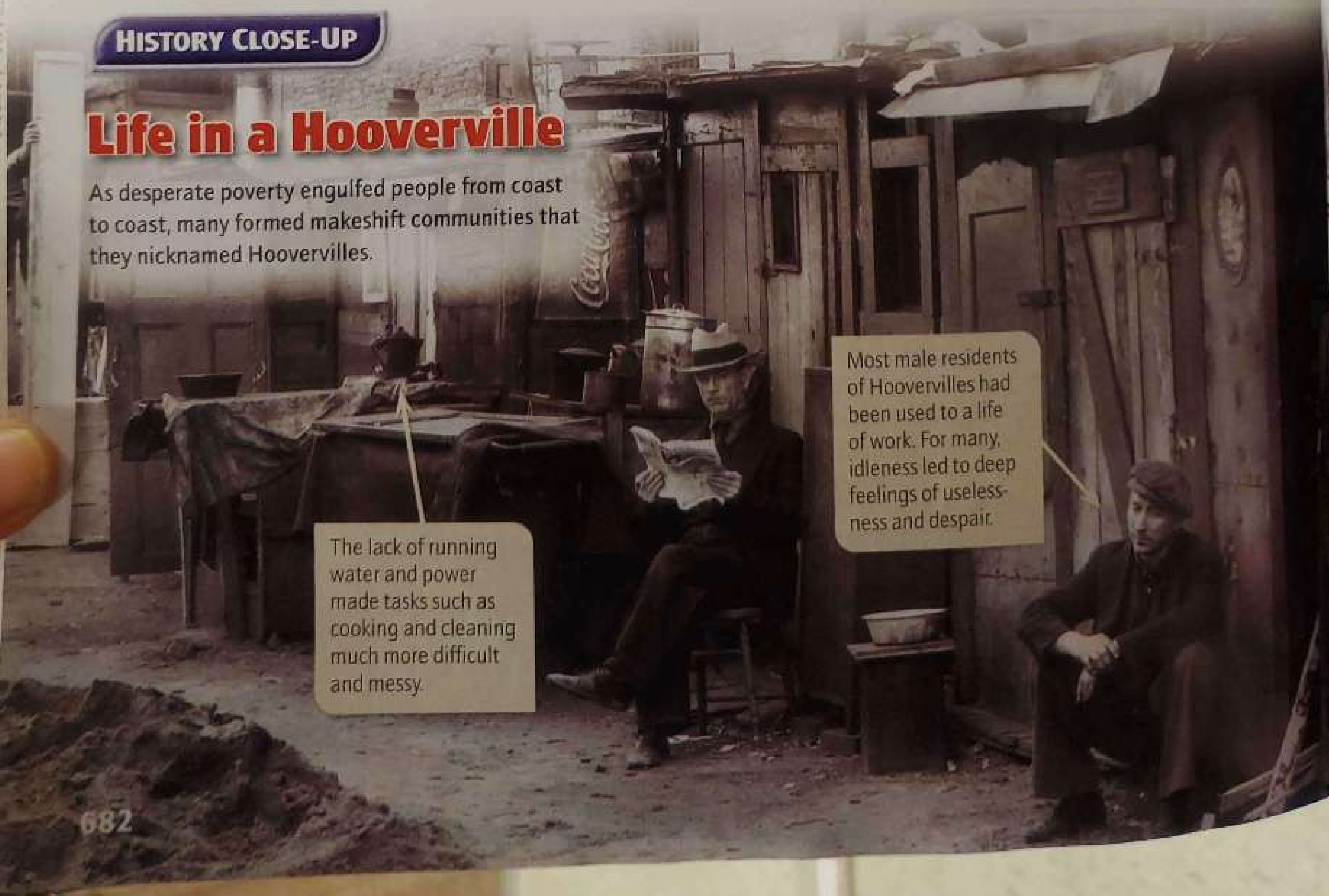
> "I'd get up at five in the morning and head for the waterfront. Outside the Spreckles Sugar Refinery, outside the gates, there would be a thousand men. You know dang well there's only three or four jobs. The guy would come out ... 'I need two guys for the bull gang. Two guys to go into the hole.' A thousand men would fight like a pack of Alaskan dogs to get through there."
>
> —Ed Paulson, quoted in Studs Terkel's *Hard Times*

For millions of Americans during the Great Depression, the loss of a job meant a quick slide into poverty. To survive, some people begged from door to door. Unable to provide food for

HISTORY CLOSE-UP

Life in a Hooverville

As desperate poverty engulfed people from coast to coast, many formed makeshift communities that they nicknamed Hoovervilles.



themselves, some relied on soup kitchens or breadlines—or simply went without.

In the early 1930s, no federal government programs provided food or money to the poor. Local charities and some municipal and state governments provided relief, but these programs were unable to meet the need. In 1932 only 1 in 4 families needing unemployment relief received it.

With no jobs or income, many Americans lost their homes. Property owners evicted tenants who couldn't pay rent, and banks foreclosed on homeowners. In many communities, sprawling neighborhoods of shacks sprang up on the outskirts of town or in public parks to house the newly homeless. These shantytowns came to be known as **Hoovervilles**. This was a bitter reference to President Hoover, whom many people blamed for the Great Depression.

On the streets of America's great cities, some unemployed workers took to selling apples. Charging a nickel an apple, a seller might earn \$1.15 on a good day. In the fall of 1930 more than 6,000 unemployed workers sold apples on the streets of New York City alone.

Other Americans took to the road in search of work. Hoboes hopped trains to travel from town to town, often taking their lives in their hands. Not only was boarding a moving train very dangerous, it was also illegal. Many railroads hired "bulls," or guards, to chase hoboes off the trains.

Wherever hoboes went, finding food was a constant challenge. Townspeople often had little food to spare. Approaching homes to beg or steal, hoboes were sometimes met with violence. Across the country, hoboes developed a system of sign language to alert each other to good opportunities—and warn of possible dangers—in a particular town or home.

Most hoboes were men. Many had left behind families that they could no longer care for. During the Great Depression, some families simply broke apart under the strains of poverty and homelessness.

The emotional toll The greatest toll of the Great Depression may have been on the minds and spirits of the American people. Even though millions of people shared the same fate, many of the unemployed saw their situation as a sign of a personal failure. Accepting handouts deeply troubled many proud Americans.

"Shame? You tellin' me?" recalled one person who lived through the Depression. "The only scar it left on me was my pride, my pride." The

MUSEUM OF THE CITY OF NEW YORK

For people living in a Hooverville, reminders of their former homes and the lives they used to lead often were important. Here, pictures provide a touch of beauty to an otherwise grim environment.

Hooverville shacks were generally thrown together with whatever building materials could be found. They were often leaky and drafty.

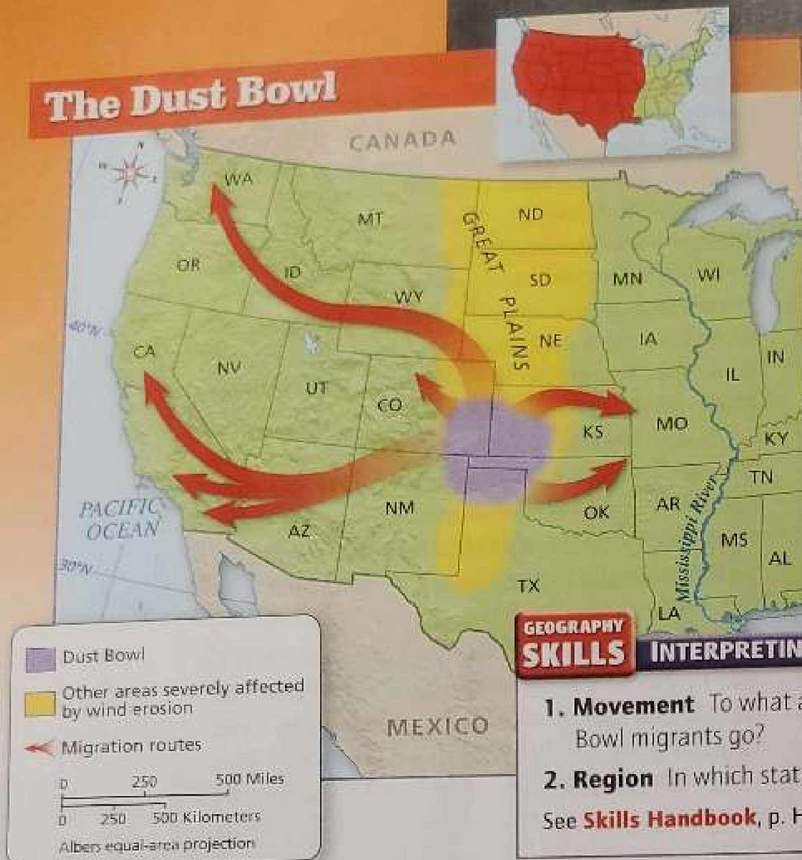
Skills FOCUS INTERPRETING INFOGRAPHICS

Hoovervilles, like this one in New York, were cobbled together with whatever people could salvage.

Drawing Conclusions What hardships might the men in this photograph have endured?

See **Skills Handbook**, p. H18

The Dust Bowl



GEOGRAPHY SKILLS **INTERPRETING MAPS**

1. **Movement** To what areas of the country did Dust Bowl migrants go?
2. **Region** In which states was it located?

See **Skills Handbook**, p. H18

grim despair people felt was reflected in a rise in suicide rates in the early 1930s.

Other people were simply angry. There was a widespread feeling that the nation had failed its hardworking citizens. One popular song of the era summed up the mixture of defiance and shame this way:

HISTORY'S VOICES

> **"Once I built a railroad, I made it run, made it race against time,**
>
> **Once I built a railroad; now it's done. Brother, can you spare a dime?"**
>
> —"Brother, Can You Spare a Dime," Yip and Gorney Harburg, 1931

READING CHECK **Summarizing** In what ways did the Great Depression affect many Americans?

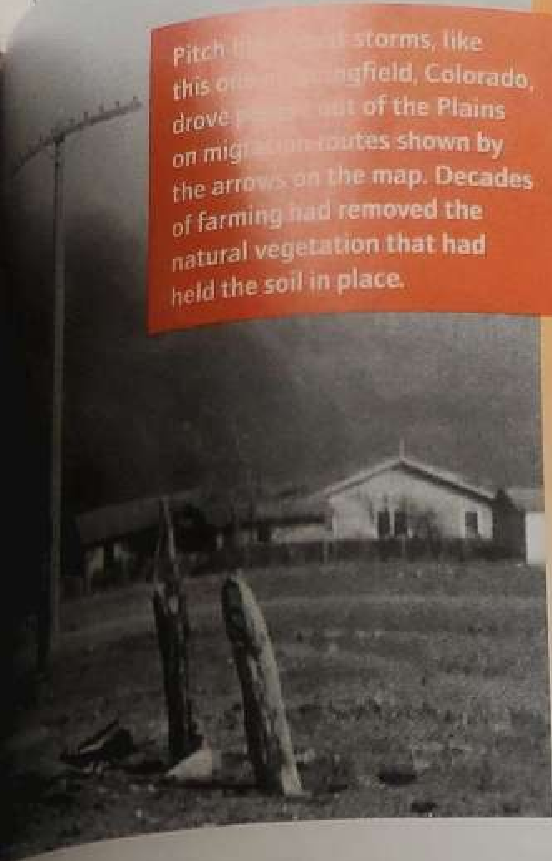
Devastation in the Dust Bowl

In the midst of the economic disaster, nature delivered a cruel blow. Around 1931 much of the Great Plains region entered a long, severe dry spell. This **drought**, or period of below-average rainfall, lasted for several years. By the time it lifted, millions of people had fled the area.

The great dust storms Drought is a part of a weather cycle, naturally occurring on the Great Plains every few decades. By the 1930s, however, careless agricultural practices had left the region vulnerable. Land once covered with grasses now lay bare to the sky with no vegetation to hold the soil in place.

When wind storms came, they stripped away the topsoil and blew it hundreds of miles away. In some of the worst storms, dust reached as far as the Atlantic Coast. Drifting mounds of dust choked crops and buried farm equipment. The fine dust blew into homes through drafty windows and under doors. Year after year, storms came and wreaked destruction. The hardest hit area—including parts of Oklahoma, Kansas, Colorado, New Mexico, and Texas—became known as the **Dust Bowl**.

Fleeing the Plains The terrible drought and dust storms robbed many farmers of their livelihood. Some simply packed up what little they had and moved. By the end of the 1930s, about 2.5 million people had left the Great Plains states. Many headed west along Route 66 to California, where they settled in camps and sought work in farms and orchards.



Pitch … storms, like this o… …gfield, Colorado, drove … of the Plains on mig… …outes shown by the arro… the map. Decades of farming had removed the natural vegetation that had held the soil in place.

The migrants were called **Okies**, after the state of Oklahoma. The term was inaccurate, since the migrants came from a number of different states. It was also meant to be insulting. The Great Plains migrants were often met by resistance and outright discrimination.

The plight of the migrants captured the imagination of some of America's greatest writers and artists, including author John Steinbeck and singer-songwriter **Woody Guthrie**. Guthrie's songs about the Dust Bowl describe the disaster's effect on the people it touched.

ACADEMIC VOCABULARY
plight bad situation

HISTORY'S VOICES

"It's a mighty hard row my poor hands have hoed;
My poor feet have traveled this hot dusty road
Out of your dustbowl and westward we rolled,
Your desert was hot and your mountains were cold.
I've worked in your orchards of peaches and prunes,
Slept on the ground by the light of the moon
On the edge of your city you've seen us and then,
We come with the dust and we're gone with the wind."

—Woody Guthrie, "Pastures of Plenty"

Guthrie's lyrics speak to the hardships and struggles not only of the migrants who left the Dust Bowl but also of all Americans hit hard by the Great Depression. For much of the decade the Depression seemingly defied most government efforts to defeat it. The American people were forced to fend for themselves.

READING CHECK **Identifying the Main Idea** How did the Dust Bowl affect Americans?

go.hrw.com
Online Quiz
Keyword: SD7 HP21

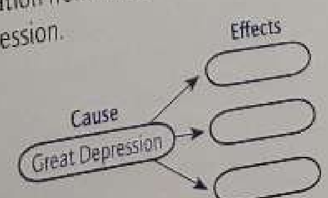
SECTION 2 ASSESSMENT

Reviewing Ideas, Terms, and People

1. **a. Identify** Briefly describe the **Great Depression** and its main effects.
   b. Explain What is the significance of the fact that there were few government relief programs in the early 1930s?
   c. Predict How do you think the federal government will respond to the Great Depression?
2. **a. Define** Write a brief definition for the following term: **Hooverville**
   b. Make Inferences What can you infer from the fact that the shantytowns of homeless Americans came to be known as Hoovervilles?
   c. Predict What do you think the political effect of the Great Depression on President Hoover will be? Explain.
3. **a. Identify** Who were the **Okies**?
   b. Compar… … similar to hoboes?
   c. Elaborate Do you think those affected by the Dust Bowl were victims of nature or responsible for their own fate?

Critical Thinking

4. **Understand Cause and Effect** Copy the chart below and use information from the section to identify effects of the Great Depression.



FOCUS ON WRITING

5. **Expository** Write an essay in which you describe the causes and effects of the Great Depression. Use details from the section to support your account.

SECTION 3

Hoover as President

Before You Read

Main Idea

Herbert Hoover came to office with a clear philosophy of government, but the events of the Great Depression overwhelmed his responses.

Reading Focus

1. What was President Hoover's basic philosophy about the proper role of government?
2. What actions did Hoover take in response to the Great Depression?
3. How did the nation respond to Hoover's efforts?

Key Terms

associative state
Hoover Dam
cooperative
Reconstruction Finance Corporation
Smoot-Hawley Tariff Act

TAKING NOTES As you read, takes notes identifying President Hoover's responses to the Great Depression. Record your notes in a graphic organizer like the one shown here.

Great Depression	→	Hoover's Response

Hoover Seals his DOWNFALL

THE INSIDE STORY ***How did a ragtag army help defeat President Hoover?*** In 1932 the United States was nearing the low point of the Great Depression. By now Americans had become used to scenes of homeless, jobless people camped out in cardboard shacks in public areas. But the group of some 15,000 World War I veterans who set up camp near the nation's capital in May 1932 was not just another group of men who were down on their luck.

These veterans had come to Washington for a reason. They were trying to put pressure on the federal government to pay them the veteran's bonus, a cash award they had been promised for their service during the war. The bonus, $1.25 for each day served overseas and $1 a day for U.S. service, was not supposed to be paid until 1945. But the men needed the money now, and they believed their request was fair.

The campers settled in, laying out orderly streets and sanitation facilities. As May turned to June, the numbers of so-called Bonus Marchers grew. When Congress failed to agree to their demands, some of the Bonus Marchers left town, but a core of them remained, along with women and children. In July police and U.S. Army soldiers began clearing the area of the veterans. Violence erupted, and soon the Bonus Marchers' main camp was in flames. Hundreds were injured, and two of the veterans were killed.

Many Americans were deeply disturbed by the sight of U.S. soldiers using weapons against homeless veterans. For President Herbert Hoover, who was already facing complaints that he did not care enough about the plight of the nation's poor, the impact was devastating. As you will read, the Bonus Marchers incident helped complete the public view of Hoover as heartless and helpless in the face of the nation's suffering. ■

▼ **Bonus Army marchers from Columbus, Georgia, begin their trek to Washington, D.C.**

Herbert Hoover's Philosophy

Herbert Hoover came to the presidency with a set of core beliefs that he had formed over a long career in business and government service. He knew just how he planned to run the country. Yet after less than a year in office, Hoover's plans were upset by the massive stock market collapse. In responding to the growing crisis, Hoover drew on his experience and on the core beliefs that had guided him.

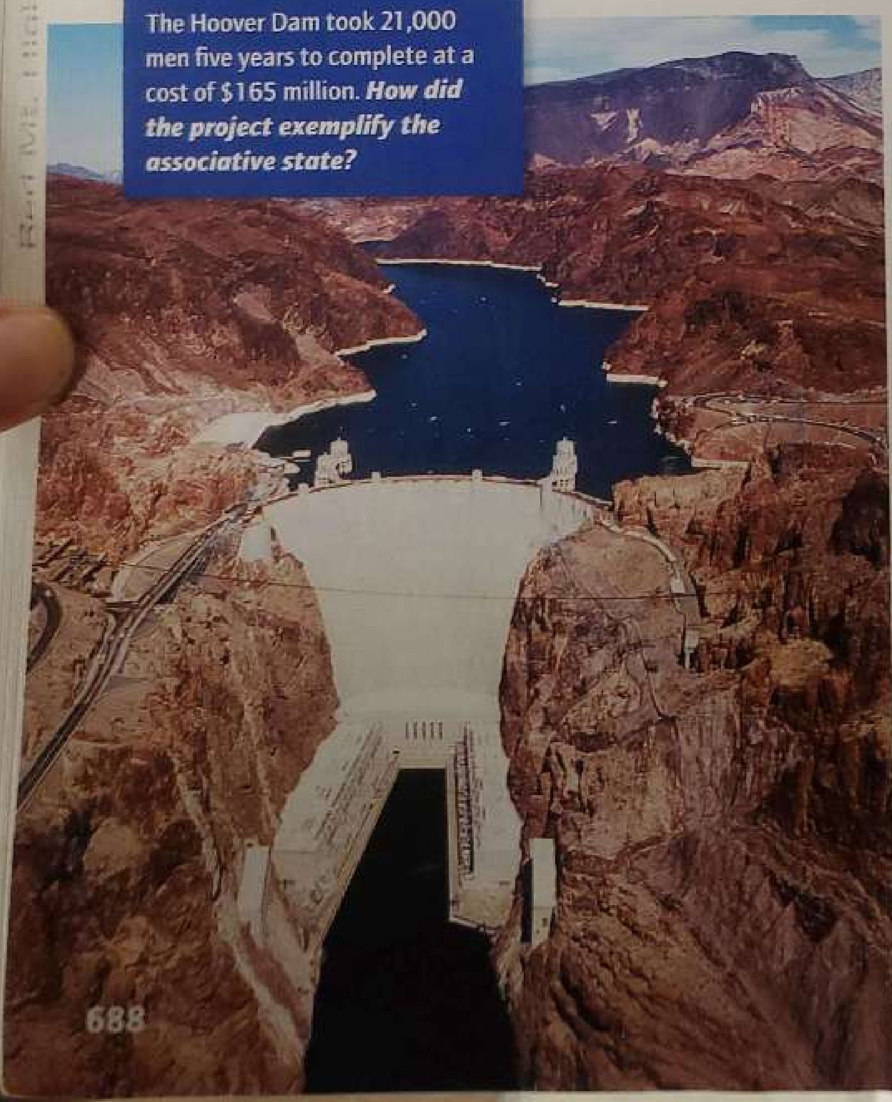
THE IMPACT TODAY

Government

In modern times, Republican presidents from Ronald Reagan to George W. Bush have also sought to limit government regulation on businesses.

"Rugged individualism" Hoover had served in the administrations of both Warren G. Harding and Calvin Coolidge. He shared many of their ideas about the proper relationship among government, business, and the people. In short, he favored a federal government that played as little role as possible in the affairs of business.

Hoover believed that unnecessary government not only threatened prosperity but also dimmed the very spirit of the American people. A key part of this spirit was what he called "rugged individualism."



The Hoover Dam took 21,000 men five years to complete at a cost of $165 million. ***How did the project exemplify the associative state?***

HISTORY'S VOICES

> "One of the great problems of government is to determine to what extent the Government itself shall interfere with commerce and industry and how much it shall leave to individual exertion . . . By adherence to the principles of . . . opportunity and freedom to the individual, our American experiment has yielded a degree of well-being unparalleled in all the world."
>
> —Herbert Hoover, speech, October 1928

Hoover did not reject the idea of government oversight or regulation of certain business. Nor did he advocate letting people and businesses do exactly as they pleased. Yet he believed deeply that it was vital for the nation's well-being not to destroy people's belief in their own responsibility and power.

The associative state Individualism did not rule out cooperation in Hoover's view. Businesses, he believed, should form voluntary associations that would make the economy fairer and more efficient. Skilled government specialists would then "cooperate with these various associations for the accomplishment of high public purposes." Hoover had a term for his vision of voluntary partnerships between business associations and government. He called it the **associative state**.

As secretary of commerce in the Harding and Coolidge administrations, Hoover had put these beliefs into practice. He often called together meetings of business leaders and experts to discuss ways to achieve key national goals. He continued to call such conferences after he became president.

Hoover's beliefs were dramatically tested in the construction of what came to be called the **Hoover Dam**. The dam would harness the Colorado River to provide electricity and a safe, reliable water supply to a vast area that included parts of seven states. The federal government provided funding for the project, which was approved in the 1920s and built in the 1930s. A group of six independent companies joined together to design and construct it. For Hoover, the project's success demonstrated the creative power of partnerships between private business and the federal government.

READING CHECK **Identifying the Main Idea** Briefly describe the two key features of President Hoover's main beliefs about government.

Hoover's Response to the Great Depression

Hoover's core beliefs shaped many of his early actions as president. Government, Hoover believed, should not provide direct aid. It should find ways to help people help themselves.

Voluntary cooperation Hoover put these beliefs into practice before the stock market crash, when he looked for ways to assist the nation's struggling farmers. He pushed for a program of loans to create and strengthen farm cooperatives. A **cooperative** is an organization that is owned and controlled by its members, who work together for a common goal. The idea behind farmers' cooperatives was that large groups of farmers could buy materials such as fertilizer at lower prices than individual farmers could. Cooperatives also could help farmers market crops in ways that would raise crop prices and increase farmers' income.

After the stock market crash, Hoover continued to rely on his basic belief in voluntary action and cooperation between business and government. He called together many of the nation's top business and government leaders and urged them not to lay off workers or cut wages. If these groups cooperated, Hoover reasoned, workers would have plenty of money to spend on consumer goods, and the worst of the economic crisis would soon pass.

Direct action Unfortunately, the president found it difficult to rally cooperation. In the face of economic disaster, individuals made decisions according to their own economic interests. Businesses cut jobs and wages. State and local governments stopped their building programs, throwing many people out of work. Consumers stopped spending. As a result, the economy plunged into the Great Depression.

The growing crisis eventually persuaded Hoover to break somewhat with his beliefs. At his urging, Congress created in early 1932

PRIMARY SOURCES

Political Cartoon

Most Hoover officials believed the effects of the Great Crash would eventually ease without drastic government action. Treasury Secretary Ogden L. Mills was especially reluctant to fund relief programs. This cartoon appeared three weeks before the 1932 presidential election.

President Herbert Hoover, an engineer by training, is unsure how to put the car back together again.

Treasury Secretary Ogden L. Mills attempts to reassure the driver, "U.S. public," that repairs are underway.

"IT WON'T BE LONG NOW!"

Skills FOCUS **READING LIKE A HISTORIAN**

Interpreting Political Cartoons What message is the cartoonist trying to convey, and what details in the drawing support that message?

See **Skills Handbook**, p. H31

ACADEMIC VOCABULARY

clause separate section of writing

the **Reconstruction Finance Corporation** (RFC). A key clause in the RFC legislation authorized up to $2 billion in direct government loans to struggling banks, insurance companies, and other institutions. Later that year, Hoover asked Congress to create the Federal Home Loan Bank. The new program encouraged home building and reduced the number of home foreclosures. These measures marked a historic expansion of the role of the federal government in the business of the American people. Still, for many citizens, Hoover's actions were too little, too late.

The Smoot-Hawley Tariff Act One of Hoover's major efforts to address the economic crisis backfired badly. In 1930 he signed the **Smoot-Hawley Tariff Act.** The new tariff raised the cost of imported goods for American consumers, making it more likely that they would purchase the cheaper American goods.

The Smoot-Hawley Tariff Act was a disaster. The tariff rates were set at historically high levels. When European nations responded with tariffs on American goods, trade plunged. By 1934 global trade was down roughly two thirds from 1929 levels.

READING CHECK **Summarizing** What actions did Hoover take to improve the economy during the Great Depression?

FACES OF HISTORY

Herbert HOOVER

1874–1964

Few presidents have entered office seemingly as well prepared and qualified as Herbert Hoover, yet the Great Depression proved too great a challenge for him to master. As an engineer, successful businessman, and humanitarian, Hoover had never met a problem he could not solve through sheer brilliance and dogged hard work. But his failure to make headway againt the Depression combined with his reluctance to provide public relief spelled electoral disaster.

Following his defeat, Hoover wrote books and continued to serve with distinction on various government commissions into the 1950s. His work streamling the executive branch for presidents Truman and Eisenhower demonstrated a still potent talent for administration.

Rate How did Hoover's performance as president compare with his earlier public service?

The Nation Responds to Hoover

Hoover had entered office believing that government should seek to avoid direct involvement in the lives of individuals and businesses. Under the pressure of events, he modified his beliefs and began to push for some forms of direct relief. In spite of his efforts, however, Hoover increasingly came under attack for his handling of the Great Depression.

The president loses favor Hoover's frequent optimistic claims about the economy slowly undermined his credibility with voters. Early in the crisis, as millions of people were losing their jobs, he proclaimed the basic economic foundation of the nation to be sound. "I am convinced," he told the nation, "that we have passed the worst." In fact, the worst was yet to come.

Hoover later spoke glowingly about the efforts being made to deal with the Depression. "Industry and business have recognized their social obligation," he said in February 1931. "Never before in a great depression has there been so systematic a protection against distress." Millions of jobless Americans did not share Hoover's assessment of the situation.

Worse, many Americans came to question Hoover's compassion. As economic conditions grew worse, his unwillingness to consider giving direct relief to people became harder and harder for Americans to understand. When Hoover finally broke with his stated beliefs and pushed for programs such as the Reconstruction Finance Corporation, many people wondered why he was willing to give billions of dollars to banks and businesses but nothing to individuals.

Bonus March The Bonus March incident further damaged Hoover's reputation. The photographs of armed soldiers fighting with unarmed, unemployed veterans deeply troubled many observers. As one newspaper of the time observed, "If the Army must be called upon to make war on unarmed citizens, this is no longer America."

Hoover's opposition to paying the Bonus Army marchers stemmed partly from a concern about the federal budget. Hoover believed that the government must have a balanced budget—that is, it must spend no more money than it takes in—in order to achieve financial health. To meet this goal, Hoover pushed for and got a large tax increase in 1932. At a time when people were suffering and asking for government relief, a larger tax burden was highly unpopular.

After Congress refused to approve payment to the Bonus Army marchers, stunned protestors began a "Death March" in front of the Capitol. Finally Hoover moved to disband the camp, and violence broke out. ***How did the public respond?***

The voters react The 1930 midterm congressional elections provided an early sign that the public was growing dissatisfied with Hoover's policies. The Republican Party had controlled Congress during the boom years of the 1920s. In 1930, however, Democrats managed to win a majority of the seats in the U.S. House of Representatives. They also came within one seat of matching the Republicans in the Senate.

By the 1932 presidential election, it seemed certain that the voters would reject Hoover at the polls. The Great Depression showed little sign of ending, and Hoover's ability to influence events was nearly gone. The president didn't even bother campaigning until October, little more than a month before the election. The main question now was who the Democrats would pick to run against him, and what that candidate would do to end the nation's grief.

READING CHECK **Identifying Supporting Details** What were some actions—taken or not taken—that made voters believe Hoover did not care?

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Online Quiz
Keyword: SD7 HP21

SECTION 3 ASSESSMENT

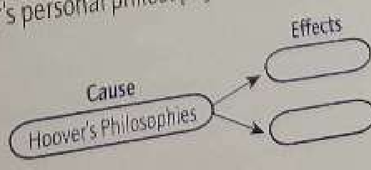
Reviewing Ideas, Terms, and People

1. **a. Identify** What were two key ideas that helped shape Hoover's core beliefs?
   b. Compare In what ways were Hoover's basic beliefs similar to those of Presidents Harding and Coolidge?
   c. Evaluate What is your opinion about Hoover's belief in the importance of rugged individualism?
2. **a. Define** Write a brief definition for each of the following terms: **cooperative, Reconstruction Finance Corporation, Smoot-Hawley Tariff Act**
   b. Analyze How effective was President Hoover's preferred approach to government in responding to the hardships of the Great Depression?
   c. Rate Defend Hoover's commitment to avoiding direct relief to individuals.
3. **a. Describe** What was the general reaction of the American people to Hoover's performance?
   b. C... with what

   c. Design What are some relief programs that Hoover's Democratic opponent might suggest?

Critical Thinking

4. **Understanding Cause and Effect** Copy the chart below and use information from the section to identify effects of Hoover's personal philosophy on government.



FOCUS ON WRITING

5. **Persuasive** Write a letter to the editor in which you either defend or criticize Herbert Hoover's approach to the stock market crash and the depression that followed. Use details from the section to support your position.