Great Depression Summary

The Great Depression and the New Deal Unit 7

The Great Depression was the worst economic downturn in U.S. history, lasting from 1929 to 1939. A depression is a long-lasting downturn in businesses and jobs. During the Great Depression consumer spending and investment dropped, causing steep declines in industrial production and employment as failing companies laid off workers, spreading hardship to families across the country. As conditions worsened, 1 out of every 4 Americans were unemployed, and nearly half of the nation's banks had failed.

Economists still debate the causes of the Great Depression, however, four major factors play a significant role. The Depression began with the stock market crash of October 1929. The stock market allows for the buying and selling of shares of stock, which represent part ownership of a corporation. When a person buys a stock, they are actually buying a small piece of a company.

When a stock increased in value, investors could sell their shares and make a profit. During the prosperous 1920's many

Americans were investing and making money in the stock market. This led people to become overconfident in the stock market. Several borrowed money to invest. Then, in October of 1929, panic hit the stock market as millions of people tried to sell their stocks but there were too few buyers. Because of this, the price of stocks fell dramatically and the stock market crashed, causing millions of shares to be worthless. Many people couldn't repay their loans. Businesses, banks and individuals all lost huge amounts of money.

A second factor that led to the Great Depression was the failure of the Federal Reserve to prevent the collapse of the banking system. The Federal Reserve – the nation's central bank – was set up by the government to help banks across the country operate properly. The Federal Reserve controls the nation's money supply. It did not act quickly enough to help failing banks all over the country.

Another factor that led to the Depression was high tariffs. A tariff is a tax on imported products. In 1930, Congress passed the Hawley-Smoot Tariff, which made imported goods from other countries more expensive. The government hoped the tariff would encourage Americans to buy domestic products, which would improve the economy. The result was disastrous. Foreign countries reacted by raising tariffs on U.S.-made goods. As a result, international trade declined, which led to further deterioration of global economies.

A fourth factor of the Depression was that many Americans had too much debt from buying consumer goods on installment plans. During the 1920's many Americans were flourishing. They purchased consumer goods on installment plans - paying for items over an extended period of time. When the Depression struck, they couldn't afford to pay off their debt.

The effects of the Depression cascaded across the U.S. economy, having severe consequences on nearly all aspects of American life. Consumer spending and investment dropped, causing steep declines in industrial production. Many business were forced to close. As the number of closed businesses increased, so did unemployment. By 1933, 15 million Americans were out of work and the unemployment rate stood at an astonishing 25 percent. A large portion of unemployed people became homeless and often went hungry. Out of work Americans filled long breadlines for free food. Homeless formed makeshift shacks across the country.

More than a third of the nations banks failed in the three years following 1929. Crowds of people flocked to banks demanding the money they had deposited in their bank accounts. Banks loan out most of the money they take in as deposits. If too many people demand their money at the same time, the banks can run out of cash. Many banks failed, resulting in closure. Some Americans lost their life savings when banks failed.

Farmers were especially hit hard by the crisis. Overproduction caused the price of farm goods to go down. Farmers were making so little money for their crops and livestock that in some areas of the country they actually burned their crops for fuel instead of selling them at market. On top of falling prices for crops, a devastating drought in the Great Plains brought on a series of dust storms known as the Dust Bowl. People and livestock were killed and crops failed across the entire region.

When the economic downturn began, President Herbert Hoover reassured everyone that the economy would improve quickly. He felt minimal government interference in the economy was best. Eventually, he realized that the federal government had to help fight the Depression, but many felt these actions were too little, too late. By 1932 many people blamed President Hoover for the Depression because of his inaction in the face of crisis.

Franklin D. Roosevelt, known as FDR, defeated Hoover in the 1932 Presidential election. Roosevelt promised to use the federal government to help the nation recover. He asked Congress to start government-run programs to create new jobs and get the economy growing again. The series of federal legislative initiatives was known as the New Deal. Although the New Deal did a lot to help the American people and get the economy back on track, it did not end the Great Depression. It took the beginning of World War II, and the industrial production it demanded, to ultimately end the worst economic period in American history.

1) Complete the following chart.

	What Was It?	When Did It Occur?	Why Did It End?
The Great Depression			

2) Complete the following chart.

Causes of the Great Depression			

3) Cause and Effect:

Cause:	*In 1930, Congress passed the* ***Hawley-Smoot Tariff*** *which made imported goods from other countries more expensive.*
Result:	

4) Why were farmers especially hit hard by the crisis?

5) True/False. Circle statements that are correct. Mark an 'X' over statements that are NOT correct.

The Great Depression was the worst economic downturn in U.S. history.	By 1933 the unemployment rate reached 35 percent.	The Federal Reserve controls the nation's money supply.	FDR believed minimal government interference in the economy was best.	The New Deal ended the Great Depression.

6) Why did many Americans blame President Hoover for the Depression?

7) Identify the following terms by writing a description OR drawing a picture to show the meaning of the term.

Federal Reserve	Tariff	Dust Bowl	The New Deal