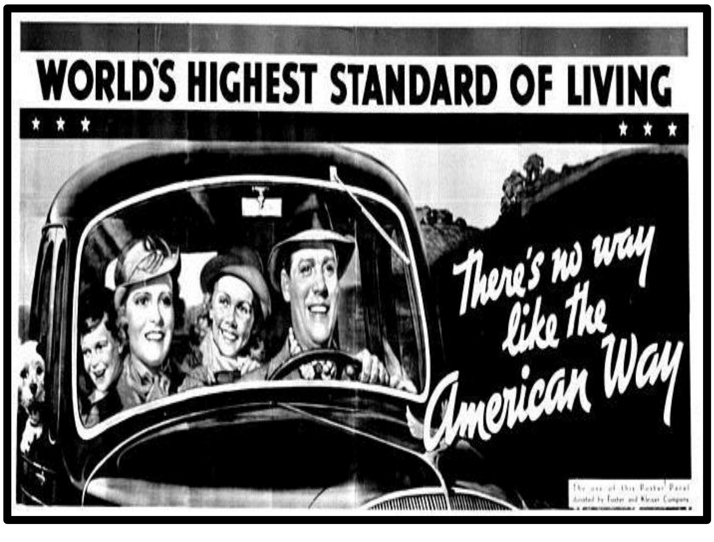
Higher History: European and World

USA: 1918 – 68

An Evaluation of the Reasons for the Economic Crisis of 1929 - 33

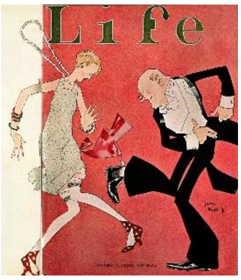


A. Background

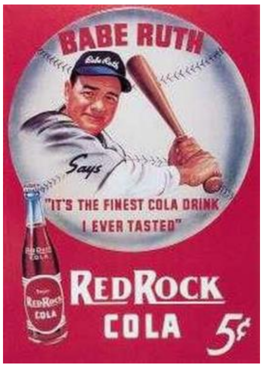
Learning Intentions:

- I will be able to describe what life was like in 1920s America before the Great Depression happened.
- I will be able to identify the reasons that led to the economic crisis of 1929-33.

After a brief post-war economic recession from 1920-1, the USA's economy boomed and so began the age of ***consumerism*.** The USA prospered and good times lay ahead. America had become without doubt the richest country in the world and throughout the 1920s there was an almost unchecked economic boom. Major cities such as New York and Chicago grew rapidly and the building of skyscrapers like the Empire State Building seemed to show the self-confidence of American society. The growth in industrial production saw more jobs being created, companies making higher profits, higher wages (2-3 times higher than in Europe) and an impressive increase in the standard of living during the years 1920-1929. People were living longer too; in 1900, the average person could expect to live to 40 years but by 1930, it was 59 years. The number of hours of worked per week reduced from an average 47 hours in 1920 to 44 hours in 1929 with working conditions improving by the end of the 1920s. Unemployment also fell from 11.9% in 1921 to 3.2% in 1929; inflation was never higher than 1%; Gross Domestic National Product (GNP) stood at $72 billion in 1920 and had increased to $104 billion by 1929. There was huge growth in retail shopping as J.C. Penney department stores increased from 312 stores in 1920 to 1,395 by 1929. Between 1922 and 1929, 6 million new homes were built, mainly in the suburbs as road and rail transport improved, and, people were wealthier and could afford to live outwith the city. The consumption of electricity doubled between 1920 and 1929 as people bought electrical goods to use in their new homes.



The bulk of the population was better off than ever before and American society seemed to enjoy a sudden sense of freedom. At the same time, many Americans wanted to enjoy themselves as much as they could by listening to the new jazz music, or doing the new dances such as the *Charleston*. Crowds flocked to watch film stars like Charlie Chaplin. By 1928, there were 17,000 cinemas. It was the 'Golden Age of Cinema'. Sport took off with baseball stars like Babe Ruth and American football becoming popular as people had free time to attend the games, could afford the tickets and could travel to the games. The emphasis on having fun and spending money has led to the 1920s being called the *'Roaring Twenties'*.



Although the American economy was booming, not everybody shared in the growing affluence. For many Americans, the 1920s was a decade of poverty. Generally, groups such as African-Americans, women and farmers did not enjoy the prosperity of the *Roaring Twenties*. Life was particularly hard for African-Americans in the Deep South where the majority of black people endured a combination of poverty and racism. Although some women were able to enjoy more independence and wear the latest fashions, the reality was that most women were poorly paid and were employed in roles such as cleaners or waitresses. More than 60% of Americans lived just below the poverty line. Economic growth, rather than diminishing the gap between the rich and the poor, had increased it. America was the richest and most successful country in the world. However, this did not last.

By 1929, the USA had plummeted into the Great Depression, the name given to the economic crisis, which started in American and affected the whole world. There are various reasons why there was an economic crisis, beginning in October 1929, and 1933. The traditional view is that the **Wall Street Crash** was the spark that sent the USA's economy into a downward spiral. However, it is now generally accepted by economic historians that the Wall Street Crash did not cause the economic crisis of 1929; it was rather 'the symptom, and not the disease'. The causes of the Great Depression can be traced back to the good times of the *Roaring Twenties.* Business might have welcomed the non-interventionist **policies of the Republican governments** of the 1920s, but by 1929, it was clear that they had not helped the American economy as much as they had hoped. The economic boom masked the problem of **overproduction** of consumer goods, which in turn led to the problem of **under-consumption** as the market became saturated with unsold products. Added to this were the **weakness of the US banking system**, which was unregulated and allowed easy credit. Finally, **international economic problems** highlighted the weak foundations on which the USA's economic boom of the 1920s was built.

Activity 1

Using the above infromation, write a detailed introduction. You should include context, factors and a line of argument.

Homework 1

You should now have everything you need to write an introduction. Your teacher will help you with this. You should also use the History Skills Booklet to help you structure your answer.

B. Republican Government Policies in the 1920s

Learning Intentions:

- I will be able to explain the reasons for the economic boom of the 1920s.
- I will be able to explain why the Republican Presidents of the 1920s were important in bringing about the economic crisis.
- I will be able to describe Republican economic policies and explain why they contributed to the economic crisis in 1929-33.

1. Reasons for the Economic Boom of the 1920s

World War I

When World War I ended in November 1918, it was clear that the effect of the war on Germany, France, Great Britain and Russia was devastating, both to their economies and in the loss of human life. America, on the other hand, came out of the war relatively unscathed. American soldiers returned home in May 1919 to ticker-tape parades and the promise of a prosperous decade. Great industrial expansion took place and as a result, the USA overtook Germany and Britain in the rate of industrial production. The war gave US industry an enormous boost as countries bought American goods, and continued to do so when the war was over. The USA was a real economic winner of the war.

Natural Resources

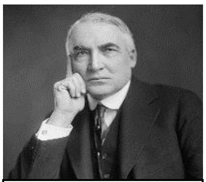
The United States of America is blessed with significant amount of natural resources, such as coal, iron, oil, agricultural land and minerals. These natural resources were easy to access and America had a large population to exploit them. The traditional industrial areas of the USA were the Northeast and the Mid-West e.g. Illinois, Michigan and Pennsylvania. These areas also attracted the new motor and electrical goods industries because there was coal to produce electricity in the factories; there were good, well-established transport networks to ship goods across the USA; they were close to large centres of population where there was an abundance of labour, often immigrant labour. However, some groups, such as textile workers in New England and agricultural workers in the Midwest, lay outside the general prosperity. As a result, income was distributed very unevenly throughout the country. People living in the Northeast and West enjoyed the highest wages in the country nearly three times that of people in the 'old' South, and the gap was widening all the time.

2. Republican Presidents

After World War I, the USA became the wealthiest most prosperous nation in the world. The Republican Party dominated the Presidency and Congress in the 1920s. The main reason for the popularity of the Republicans at this time was that by the middle of the 1920s, many Americans were better off than they had ever been before. The USA was prospering and the Republicans claimed that much of it was the result of their policies.

Republican Presidents of the 1920s adopted various economic policies that allowed the USA to enjoy an economic 'boom'. The Republican Party is regarded as the party of 'big business' with Presidents such as Warren Harding sharing the values of the business elite. Two US Presidents, **Calvin Coolidge** and **Herbert Hoover**, played key roles in the economic collapse and the ensuing Great Depression that lasted throughout the 1930s.

Woodrow Wilson (Democrat) 1913-1921



Warren G. Harding (Republican) 1921-23

Calvin Coolidge (Republican) 1923-29

Herbert Hoover (Republican) 1929-33

Franklyn D. Roosevelt (Democrat) 1933-1945

Calvin Coolidge, who became President after the sudden death of President Harding, said, "*The chief business of the American people is business*". The policies of Coolidge's administration were to revolve around the principle that businesses should be allowed to operate as far as possible unrestricted by regulation. Coolidge believed firmly in the free market. He greatly admired businessmen and felt private enterprise should be left alone to produce wealth and profits. The *Wall Street Journal*, a financial newspaper, approvingly declared: *"Never before, here or anywhere else, has a Government been so completely fused with business"*. Under Coolidge, the Republicans became the businessman's party. Coolidge failed to curb the speculative boom in the stock market, and failed to restrict easy credit that led to the Wall Street Crash seven months after he left office.

Herbert Hoover, had promised the American people *'a chicken in every pot, a car in every garage'* when he took office in March 1929. Prior to this, he was the Secretary of State for Commerce under Coolidge and described as the *'architect of prosperity'* in the 1920s. The depression was also due to the actions, or inactions, of President Hoover. Few politicians realised the seriousness of the economic crisis and firmly believed the economy would eventually recover by itself without the need for federal intervention. It is believed that the Hoover administration took the narrow interests of business groups to be the national interest, which turned out to be catastrophic. Republican attempts to bring America out of the Depression were described as *'too little too late'*.

In 1933, Hoover's failure to alleviate the severe hardships led to his defeat when he stood again for the Presidency.

In March 1929, Herbert Hoover succeeded Calvin Coolidge as President. A few months earlier, during his election campaign, he expressed great satisfaction in the American economy and the years of Republican Government and importantly, his role in bringing about that boom.

"We have increased in home ownership, we have expanded the investment of the average man. Today there are almost 9 automobiles for every 10 families, where 7 years ago only enough automobiles were running to average less than 4 for every 10 families. The slogan of progress is changing from the full dinner pail to the full garage. Our people have more to eat, better things to wear, and better homes. Wages have increased, the cost of living has decreased. The job of every man and woman has been made more secure. We have in this short period decreased the fear of poverty, the fear of unemployment, the fear of old age. In 7 years we have added 70% to the electric power at the elbow of our workers and further promoted them from carriers of burdens to directors of machines. We have steadily reduced the sweat in human labour. Our hours of labour are lessened; our hours of leisure have increased. In these 7 years the radio has brought laughter, education and political discussion to almost every fireside"

Coolidge and Hoover both followed policies that largely gave business what it wanted. Both men chose Cabinets mostly composed of millionaires who sympathised with any difficulties facing businessmen. Under Coolidge in particular, the Republicans became the businessman's party. More than any of their predecessors, these Republican Presidents identified the fortune of America with the fortunes of business.

3. Republican Economic Policies

The following are key Republican economic policies in the 1920s, which many argue, allowed the USA to become the leading industrial nation of the early 20th century but also led to the economic crisis of 1929.

Laissez-faire: During World War I, the Government had taken direct control of many aspects of the economy in order to produce an efficient war effort. With the coming of peace the Republicans were determined to '*return to normalcy*' and end this unwelcome and, as they believed, damaging interference in free enterprise. Most Republicans believed that Governments should not get involved in the day-to-day running of the economy. They believed that if businessmen were allowed to make the decisions that affected their business, then higher profits, more jobs and good wages would be the result. This important Republican policy is known as laissez-faire: '*to* *leave alone'*. However, this led to businesses under Republican Presidents being essentially unregulated with Federal policy allowing business to operate, as far as possible, outwith government regulations. Government should only step in when business asked for its help.

Deregulation of Business: Attempts to save the government money meant there were cutbacks in the government agencies that regulated business. This meant that businesses were often left to carry on affairs as they saw fit with no one checking up on them. Laws concerning corrupt business practices, such as price fixing, were often ignored. Mergers between companies took place, which resulted in companies monopolising industries, which disadvantaged small business. Lack of regulation could have serious effects. For example, no government authority stopped child labour in the textile mills of the south where a 56-hour week was common and wages rarely rose to more than 18 cents per hour. Of course, leaving business unregulated meant that no government body was overseeing them to make sure that the economy was not failing.

Protectionism: Despite believing the government should not interfere in how businesses were run, one of the most significant Republican policies of the 1920s was the introduction of protective tariffs (tax) on the import of foreign products. The 'Fordney-McCumber' Tariff Act, 1922 set tariffs at a record level of 40%. This meant that foreign imports were now too expensive for Americans to buy, which meant foreign companies were unable to compete with cheaper American-produced goods on price. This was known as 'protectionism' and almost guaranteed that Americans bought products made in America. This 'price-fixing' protected American businesses from cheap foreign imports, but failed to deal with the consequences of foreign countries retaliating by blocking American imports to their countries.

Tax Reductions: Throughout the 1920s, Republicans reduced taxes giving people more disposable income to buy consumer goods. Taxes were reduced for businesses and those who earned the highest salaries. Taxes on high incomes and company profits were drastically reduced. The Government reduced Federal Tax significantly in 1924, 1926 and in 1928. Large-scale industrialists benefited from tax rebates and deferments (putting off payment) on loans. However, these tax cuts primarily benefited the wealthy with the poor hardly benefitting at all, which caused problems when the Depression hit. The Republicans also gave businesses credit to encourage them to expand. This bill totalled $3.5 billion by 1929. Banks would give out cheap credit to its customers, allowing them to buy, buy, buy and keep the economy growing, meaning the American economy was not built on strong economic foundations and if people lost jobs and stopped buying goods, or failed to repay their credit, then the wider economy would collapse.

These Republican policies have been called ‘irresponsible’ by historian Hugh Brogan in *The Penguin History of the United States of America* (2001) as they resulted in great extremes of wealth and poverty with too large a share of profits going into too few pockets. Whilst the government had been accused of interfering too much in people’s lives during the war, the deregulation of the banks and businesses seemed to give people back their freedom and for most of the 1920s, this seemed to work. Peter Clements, *Access to History: Prosperity, Depression and the New Deal: The USA 1890-1954,* (2008) argues that the lack of government regulation created a *‘dynamism within the age that encouraged risk and adventure’.* However, the failure of the Republicans to see the consequences of these policies have led to many blaming them for the economic crisis that lay ahead.

Activity 2

1. Explain the reasons for the economic boom of the 1920s.

2. Explain why the Republican Presidents of the 1920s were important in bringing about the economic crisis.

3. Describe Republican economic policies and explain why they contributed to the economic crisis in 1929-33.

4. Overall, explain how important Republican Government policies were in causing the economic crisis and back this up with evidence.

Homework 2

Now that you have gathered your evidence for this factor, you are ready to use it to write up the first factor. Your teacher and your History Skills booklet will help you with the structure of your essay. You will begin this factor in class and will complete it at home.

C. Overproduction of Goods

Learning Intentions:

- I will be able to describe how consumerism helped the American economy grow in the 1920s.
- I will be able to explain why the overproduction of goods led to the economic crisis of 1929.

The 1920s was a time when the US's economy grew incredibly fast. Great technical advances in industrial mass-production made the production of consumer goods much easier and cheaper. There were huge increases in the quantity and variety of products on sale in American shops as factory assembly lines produced the latest product. More and more American households had electricity in their homes and wanted the latest new technology. This 'consumer boom' led to items such as irons, ovens, washing machines, vacuum cleaners, refrigerators, radios and telephones became very popular. In 1929, $852 million worth of radios were sold and an estimated 40% of American households owning a radio. There were 618 radio stations from which to choose.

To fuel the boom, people had to buy new 'things' constantly. To ensure that Americans were informed about the latest products, another new industry, advertising, sprung up in the 1920s. Advertisements, whether on the radio, in the cinema, or on billboards, had the sole purpose of convincing Americans that they *needed* the newest fridge or a washing machine, that they could not do without the latest model or design. In 1912, 2.4 million items of electrical goods were sold. By 1929, about 160 million electrical goods were being sold every year to American consumers. Advertisers even brought the high street stores into people's home with the mail order catalogue. Consumers could order the products they wanted from the comfort of their own home as they flipped through catalogues with thousands of products in them. Mail order catalogues generated $300 million worth of sales each year. However, such figures can be misleading. Much of the rural USA had no electricity in the 1920s. Many items that you would expect to be in use, such as refrigerators, were not in use. It was not a 'domestic consumer revolution'.

The boom years of the 1920s can be seen most clearly in the motor industry. In 1919, there were 7 million cars on American roads. By 1929, there were 23 million cars on the roads representing just over 20% of all American families. The American love affair with the cars deepened as mass production, pioneered by Henry Ford, brought prices down and created thousands of well-paid jobs on the production lines. In 1909, a Model T Ford cost $1,200. By 1914, the cost had reduced to $850, and by 1926, the price had fallen to just $295. Ford produced the Model T car with the aim that anyone earning a reasonable income could afford one. People in the countryside were the first to purchase cars in massive numbers. In the south, many whites fumed when they saw a black family taking a Sunday drive. *"The Model T Ford gave the farmer and rancher, miles from anywhere, a new pair of legs,"* wrote one commentator. The costs of cars fell with the introduction assembly lines. Demand rose but with competition from General Motors and Chrysler, there were always more cars to supply to customers than there were people to buy them. However, new designs, new models and advertising encouraged people to keep buying.

The growth of the motor industry stimulated growth in other American industries. American steel (20%) was used for the chassis and engines of cars and trucks; glass (75%) was needed for windscreens; leather (65%) was required for seats; rubber (80%) for the tyres and inner tubes and of course, petrol (7 billion gallons/year) for power. Hospitality industries also developed with motels and gas stations built alongside the highways; roadside diners catering for drivers and garages to fix the inevitable broken down car. These industries employed thousands of people and paid them a decent wage, which they were able to spend on consumer goods. Cars were the most visible symbol of the new consumer society in the USA.

In response to the number of cars being sold, the Federal Government began infrastructure works. By 1925 over $1 billion was being spent on roads, parkways, bridges and tunnels to handle the exploding volume of traffic. By 1929, the government was building over 10,000 miles of roads each year. These infrastructure works increased the demand for American made concrete, tarmac and stone, leading to high employment in these industries. Each car bought generated employment for thousands of Americans across various American industries.

> *"The USA seemed to have all the economic advantages which some of the other powers possessed in part, but none of their disadvantages. It was huge, but the vast distances were shortened by some 400,000 kilometres of railway in 1914. The sheer size of the area under cultivation, the efficiency of its farm machinery, the decreasing costs of transport because of railways and steamships made American wheat, corn, pork, beef and other products cheaper than any in Europe. American firms were equal to or better than any in the world; and they enjoyed an enormous domestic market, which their European rival did not. In industry and agriculture*

and communications there was both efficiency and size." **Paul Kennedy, *The Rise and Fall of the Great Powers,* (1988).**

The consumer boom was financed largely by the development of credit, or hire-purchase. This meant that the consumer only needed to pay a small deposit and could take their product home that day. The consumer would then pay a portion of the balance off each month until they fully owned the product. By 1929, $7 billion of goods were sold were sold this way. This included 75% of all cars, 75% of all radios, 60% of all cars and 60% of all furniture was bought on credit. Credit enabled consumers to buy goods they otherwise could not have been able to afford. Even in working class household's oil furnaces, radios, toasters, irons and washing machines could commonly be found. It was estimated that men earning $35 a week were paying out the same amount per month for their family car. Companies sometimes used credit facilities to finance operations. It seemed that almost everyone was in debt but there was little concern. It was assumed that everyone's credit was good as many in the 1920s seemed to have a reasonably well-paid job with wages rising by 10% meaning they had spare cash to spend. Unemployment fell from 12% in 1921 to 3% in 1929 so people never really entertained the thought of losing their jobs. After all, they believed that the prosperity of the 1920s would last forever. Banks and loan companies seemed to lend money with few questions asked.

However, there were potential problems. It soon became clear that manufacturers were simply making too many products and that the American public, once they had bought the latest product, were reluctant to buy the updated model just because advertisers told them to. More cars, radios and other electrical goods were being made than people could buy. The USA was experiencing the serious problem of overproduction. Not everyone could afford to update their car or refrigerator as frequently as the manufacturers wanted them to. Once everyone had the latest product, market consumption inevitable slowed down and products remained unsold. Despite the government encouraging business to grow and by allowing for unregulated credit, government policy did not take into consideration that most businesses cannot grow if people cannot afford to borrow more money or buy every new product offered.

In addition, there was a lack of acknowledgement by the government that when the market was saturated and consumers stopped buying, factories would have to close resulting in high unemployment. There were no alternatives in the job market for these people to find new jobs. If the government had perhaps decided to tax the rich more and distribute the wealth more equally then it is possible that business and employment could have been given a helping hand. However, to increase taxes would have been against the Republican policies of deregulation at the time. Overproduction and under consumption were about to end the boom years of the 1920s.

Activity 3

1. Draw an image of a person in the middle of your page. Around this person annotate the lifestyle they thought they should have. i.e. the American Dream. Detail the products they had and the vast qualities that America was producing.

2. Explain, in detail, how Americans paid for all of these goods, i.e. credit. Why would this be problematic?

3. Explain, in detail, why the overproduction of goods led to the economic crisis.

Homework 3

Now that you have gathered all your evidence for this factor, you are ready to use it to write up your second factor. Your teacher and your History Skills booklet will help you with the structure of your essay. You will begin this factor in class and will complete it at home.

D. Under-consumption

Learning Intentions:

- I will be able to explain why many Americans did not benefit from the economic 'boom' of the 1920s.
- I will be able to explain how under-consumption led to the economic crisis of 1929.

Uneven distribution of income

Although the American economy was booming, not everybody shared in the growing affluence of the 1920s. Despite President Hoover stating that *"We in America today are nearer to the final triumph over poverty than ever before in the history of any land,"* prosperity in the 1920s was very uneven. Six million families (42%) had an income of less than $1,000 a year and certainly could not afford the new consumer goods such as cars and gadgets rolling off the production lines. The enormous output of goods required a corresponding increase of consumer buying power, which could only be achieved if wages increased. However, workers' income in the 1920s did not rise with the increased productivity. Howard Zinn, in *A People's History of the United States,* (1980) argues that as the rich got richer and saw their incomes increase by up to 40% by 1929, the average workers' income rose slowly with real wages in manufacturing increasing by only 1.4%. In 1928, it was estimated that 42% of Americans did not earn enough to buy adequate food, clothing or shelter let alone had money to spend on fridges and cars. Some workers even experienced falling wages and massive unemployment. Added to this working conditions were terrible with about 25,000 workers killed on the job every year of the 1920s and 100,000 were left permanently disabled.

Prosperity was concentrated at the top. Throughout the 1920's business had benefited from Republican policies to keep taxes low. The result of this was that in 1928 the top 5% of the population earned 33% of the nation's income. In other words, the top 36,000 families in the USA received as much income as the 12 million poorest. The bottom 40% of the population received only 12.5% of the nation's wealth. Only the wealthy minority of the US population could afford the new consumer goods that rolled off factory production lines.

Presidents Coolidge and Hoover advocated a policy of *'rugged individualism'*, which meant *'every man for himself'*, with no welfare support from the Government for the poor. The growth of mass production, mass consumption and mass culture, as impressive as they were, excluded a very large segment of the population. Economic growth, rather than diminishing the gap between the rich and poor, increased it. The unequal distribution of wealth, though generally ignored by political and business leaders, was a central feature of the 1920s.

Who suffered the most from under-consumption?

1. Agriculture

American agriculture in the 1920s was in trouble. Between 1900 and 1920, American farms had seen a huge increase in profits. This was especially true during World War I as the increased demand for food from Europe resulted in American farmers prospering as food prices increased. Population growth in the cities also led to increased demand for food. Farmers began to cultivate land that had previously remained fallow in order for supply to meet demand. They invested heavily in the latest technology such as tractors.

However, as European agriculture recovered after 1918, American farmers started to suffer. The fact that wartime prices were so high made their collapse after 1918 even more shocking. In many ways, farmers were a victim of their own success. They had been too successful in growing crops. The problem was, by 1929 there was an under consumption of farm goods. As a result, prices fell and farms lost money. Between 1920 and 1932 the total income of farmers dropped by approximately 70% from $22 billion in 1919 to $13 billion in 1928. The obvious answer was to cut production and let prices rise. However, to survive, many farmers planted more crops instead of less, which only worsened the problem of overproduction and falling prices. Farmers would not willingly cut production, as they could not trust that their neighbours would do the same.

Overproduction of agricultural goods was complicated by events outwith the control of farmers. Cotton farmers were affected by changes in fashion and from the demand for cheaper synthetic fibres. The 1920s saw the 'flapper' style emerge, which introduced shorter dresses without underskirts. Men, who had traditionally worn a vest underneath their shirts, now took their fashion influences from Hollywood's leading men who were no longer wearing vests. Sales of men's vests collapsed overnight. New, cheaper, synthetic (man-made) materials such as nylon replaced cotton leading to fields of cotton being left unpicked as farmers were once again the victim of overproduction and under-consumption. The introduction of prohibition meant that there was no requirement for barley to make beer. The demand for barley fell by 90%. American eating habits were also changing. Demand for wheat fell by 25% in the years 1900-1925, as an increasingly prosperous population preferred foods that were more luxurious. The introduction of tractors and other mechanised agricultural machinery meant there was less demand for horses, which meant there was less demand for cereals to feed horses, leaving grain farmers with a surplus of goods. The

American market became inundated with cheaper products from Canada as its prairies began to be cultivated by the huge amount of immigrants moving there.

Added to this crisis, farmers also had heavy debt payments for land, for equipment and supplies. More and more farmers were forced to sell up as they saw their mortgages foreclose and the loss of their land. There were 1,000,000 less farms in 1930 than there had been in 1920. Some farms operated at a 66% loss. Those who remained were still unable to enjoy what were becoming 'essential' facilities: in the mid-1920s, a mere 7% of farms had gas or electric light, and just 10% had piped water.

Farmers became bitter and some wanted the Government to step in and guarantee prices by introducing tariffs to stop foreign competition. The Government refused to do so as the Fordney-McCumber Act had resulted in foreign countries retaliating by raising tariffs against American imports to their country. The McNary-Haugen Bill proposed to help farmers by buying produce at 1914 prices thus stabilising prices and selling the surplus abroad. However, President Coolidge did not like the idea of off-loading America's surplus food cheaply onto poverty-stricken countries of Europe and blocked the Bill from becoming law. Besides, this Bill would not have done anything to solve the problem of overproduction. President Coolidge was also aware of a new pattern emerging in American agriculture. Large well-financed farms producing cereals, fruit and vegetables were accounting for more and more of the country's agricultural output. These 'agri-business' farms owned by land companies replaced the traditional family owned farm.

2. Traditional Industries

In the industrial heartland of America, the situation was not any better. The traditional industries of coal mining and textiles faced increasing competition from new industries.

In the 1920s, coal faced tough competition from oil, gas and electricity. In 1918, 680 million tons of coal were produced a year. By 1932, coal tonnage had reduced to 360 million, yet there was still a surplus. Coal miners could expect to be paid one-third of the national average income. As coalmining did not have strong trade unions to fight to guarantee their industry's future, wages dropped, working hours increased and working conditions became increasingly more dangerous as mine owners cut costs in an attempt to save money.

Therefore, the 'roaring 20s' and the economic 'boom' were not built on solid foundations. Beneath the surface, there were serious problems that the Republican government did not seem to want to, or did not know how to, address: overproduction, and under-consumption. By the end of the 1920s, the market for the new consumer goods was saturated. By 1929, automobile factories had to lay off thousands of workers because of reduced demand. Historians and economist, J. K.

Galbraith and Arthur Schlesinger argue that it was the government's fault for pursuing a laissez-faire approach to business and the economy and introducing protectionism, which was always going to see other countries retaliate by imposing high import duties on American goods. They argue that the government should have seen the crash coming since the 'boom' years were not built on any solid economic foundations.

Activity 4

1. Create a diagram which explains the effects of over consumption (flow – diagram, domino effect etc.)

2. Copy and complete the table below in detail.

	Agriculture	Industry
Why did this are not benefit?		
Why did this lead to the economic crisis?		

Homework 4

Now that you have gathered all your evidence for this factor, you are ready to use it to write up your third factor. Your teacher and your History Skills booklet will help you with the structure of your essay. You will begin this factor in class and will complete it at home.

E. Weakness of the US Banking System

Learning Intentions:

- I will be able to describe the weaknesses in the American banking system
- I will be able to explain why the American banking system helped cause the economic crisis of 1929.

Unregulated Banking System

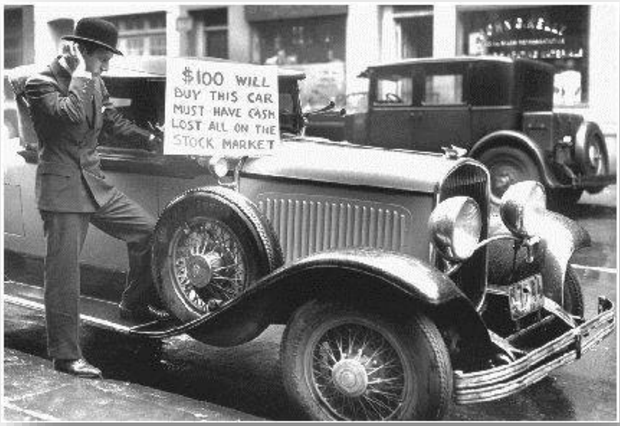
A major problem that led to the financial crash of 1929 was the lack of regulation of banks. The US banking system was made up of hundreds of small, state-based banks. In hundreds of small communities, local people put their money into the banks for safekeeping and earned a small amount of interest on top of this. Banks then used their customer's money to make investments that made more money, or a profit, for the bank. As the economic boom grew, banks invested savers' money in the stock market in the hope of making a larger profit.

The banking system allowed the banks to regulate themselves without the Government interfering. The bankers would act in their own interests rather than in the interests of the nation as a whole. There were 30,000 banks in the 1920s, none of which had any checks to ensure they were reliable operators and would not be careless with customer's money. Most were very small and therefore unable to withstand major setbacks. If they collapsed, their depositors would probably lose virtually all their savings. However, why would they collapse? Why would the stock market start to fall? The 1920s had seen huge profits made on the stock market year after year. The banks and government were not worried about an economic crisis.

However, when financial uncertainty loomed, people did began to withdraw their savings. They felt more secure if their money was in their own hands rather than in the bank. The banks could not cope with the demand as they had used customer's money to invest in the stock market, lost it as shares fell and consequently ran out of money. The collapse of one bank often led to a 'run' (people running to their own bank to withdraw their money in case their bank collapsed leaving them without their money) on other banks, resulting in a banking collapse. By the end of 1932, 20% of the banks that had been operating in 1929 had declared bankruptcy and had closed down. The normal banking system almost ceased to exist and without an efficient banking system, the economy could not function.

Easy Credit

One of the reasons why the economic consumer 'boom' was considered to be built on weak foundations and ultimately led to its crash was due to it being financed largely by the easy availability of credit. Credit was the easiest way for banks to make money. Bankers encouraged people to take out loans to enable them to buy new consumer goods and to speculate on the stock market, thus keep the economy making money. Regular payments to the bank, plus interest, were made over a period until the loan was paid off. By 1929, $7 billion of goods were sold on credit. This included 75% of all cars and half of all major household appliances. Credit enabled consumers to buy goods they otherwise could not have been able to afford. It seemed that almost everyone was in debt but there was little concern. It was assumed that everyone's credit was good. Banks and loan companies seemed to lend money with few questions asked. This system worked, as long as people were in employment and wages remained reasonably high and were able to make their loan re-payments.



Activity 5

1. Describe, in detail, the weaknesses in the American Banking system.
2. Explain, in detail, why the American banking system helped cause the economic crisis of 1929.

Homework 5

Now that you have gathered all your evidence for this factor, you are ready to use it to write up your fourth factor. Your teacher and your History Skills booklet will help you with the structure of your essay. You will begin this factor in class and will complete it at home.

F. International Economic Problems

Learning Intentions:

- I will be able to explain why the USA's economy in the 1920s was affected by other countries.
- I will be able to explain why these problems led to the economic crisis in 1929.

The Republican policy of protectionism ultimately failed to help the USA's economy. It may have initially helped the US domestic market by making foreign goods more expensive for the consumer to buy meaning consumers would buy cheaper American made goods thus stimulating the USA's economy. However, the downside was that in retaliation, foreign countries (except Britain) put high tariffs on American goods coming into their countries making it harder for American companies to sell their goods around the world. This did not help them sell the surplus goods that American consumers were no longer buying. The world stopped buying American products in the 1920s.

Added to this was the amount of international debt America was owed. World War I had a devastating impact on the European economy. As Europe struggled to get back on its feet financially, the USA stepped in to assist with its post-war recovery by lending countries like Germany money. Immediately after the war, European countries also bought many American goods as production in Europe had halted during the war. In the immediate aftermath of World War I, the USA's economy went from strength-to-strength leaving many with the impression that it would always be like this.

However, international debt remained high throughout the 1920s and historians such as Clements argue that it was this international debt that lay at the heart of America's economic problems after 1929. The USA had lent over $10 billion to the allies during the war. U.S. banks also continued to lend Germany enough money to enable it to meet its reparation payments to countries such as France and the United Kingdom. These countries, in turn, used their reparation payments from Germany to service their war debts to the United States. German loans through the Dawes (1924) and Young Plan (1929) meant that USA were effectively paying Germany to pay them back! Due to the high tariffs on foreign goods entering the USA, European countries found it difficult to gain access to a huge consumer market, make money and therefore pay back loans, which they had to refinance, becoming increasingly indebted. However, some countries, like Germany, had problems making the payments, which left the USA with less money and heading to financial crisis. The US began to apply more pressure to these countries to make their repayments. This was the problem:

America could only do so well on its own for so long through policies such as protectionism. For America to continue being prosperous, the world's economy would have to be prosperous too. If the rest of the world was struggling financially, then it was only a matter of time before America's economy suffered too. As Eric Rauchway put it, *"… war also changed American, rendering the once peripheral New World … central to the planet's concerns"*, ***The Great Depression and New Deal: A Very Short Introduction,*** (2008).

Activity 6

1. Explain the economic connections between Germany and America. What was the link and what effect did they have on each other?

2. Explain, in detail, why this led to the economic crisis.

Homework 6

Now that you have gathered all your evidence for this factor, you are ready to use it to write up your fifth factor. Your teacher and your History Skills booklet will help you with the structure of your essay. You will begin this factor in class and will complete it at home.

G. The Wall Street Crash

Learning Intentions:

1. I will be able to explain why Wall Street crashed in October 1929.
2. I will be able to describe the events of the Wall Street Crash
3. I will be able to explain the impact the Crash had on America
4. I will be able to explain why the crash led to the economic crisis of 1929.

Loss of confidence in the stock market

Buying shares

Many Americans dreamed of becoming rich by making a big profit on the Wall Street Stock Exchange. If the company made money, share prices would go up and you would get a share of the profits. These shares, or stocks, would then be worth more, so you could sell them at a higher price on the stock market. Many people borrowed money to buy shares in the hope that share prices would carry on going up.

The stock market contained the seeds of its own collapse. America had gone 'Wall Street Crazy' and went on a spending spree in the 'Roaring Twenties'. Americans were encouraged to buy shares in American companies. Many overextended themselves thinking they could not lose and financed their investments in the stock market by takin gout loans (credit). With prices rising constantly throughout 1929, everyone was confident that ever-rising share values would continue. Few paused to consider what might happen if prices fell. People chose to ignore the golden rule of business: that the share price could collapse as well as soar. However, as the share prices went up, the demand for shares increased further as people saw the chance to make easy money. It seemed as if all American companies were making money in the 1920s. However, as more and more people wanted to buy stocks. The higher a share cost, the more it looked like the business was doing well. This in turn made it look like the American economy was doing well. By 1929 ordinary people, banks and big businesses were buying shares *'on the margin'*, which meant they paid only a fraction of the full price at the time of purchase, intending to sell on the shares at a profit before the rest of the payment became due. This *'get rich quick'* culture meant that investors were forcing up share prices with money they did not really have.

Following Hoover's election in November, 1928, there had been an atmosphere of optimism in the stock exchange (*Wall Street, New York*) fuelled by his speeches about ending poverty and increased prosperity. The value of shares reached a new high in

June 1929. However, the boom of the 1920s was very fragile and the rise in share prices was based on the confidence that prosperity would continue. On September 5, 1929 the economist, Roger W. Babson warned people, *"Sooner or later a crash is coming."* Some shareholders such as Joseph Kennedy (father of future President John F. Kennedy) began to question whether this prosperity would indeed last forever and began to sell their shares, believing that prices were at their peak. This caused others to sell their shares too as confidence in the market disappeared.

The Wall Street Crash

Saturday, 19 October 1929: 4 million shares were bought and sold on Wall Street.

Sunday, 20 October 1929: Whilst the stock market was closed, newspapers reported that share prices were falling. Investors, knowing that if shares continued to be sold in the same quantities as on Friday, the value of the shares would fall meaning they would lose a lot of money.

Monday, 21 October 1929: Investors instructed their brokers to sell their shares before their value dropped.

Thursday, 24 October 1929 - 'Black Thursday': Despite the uncertainty, the day's business on the New York Stock Exchange on Wall Street, the largest money market in the world, began as much as usual. However, brokers were nervous. The past few weeks had seen violent swings, both in prices and between optimism and fear. By 11am, one hour after opening time, panic had seized the market. The value of US Steel stocks fell from $205.5 per share to $193.5, General Electric fell 15% from $315 to $283 a share. Investors panicked and instructed their brokers to sell, at any price, and sometimes for virtually nothing. No one really understood what was happening. Brokers found it very difficult to keep up with current prices. They were buying stocks for clients at an agreed price only to find out they were not worth that much. Scenes at the Stock Exchange were becoming so wild that the police had to be called. Crowds gathered outside to witness the goings-on.

> "Fear struck…thousands of brokers threw their holdings into the whirling stock exchange pit for what they could bring. On the stock exchange floor there was a mad scramble to sell. Brokers turned white with shock, some ran about shouting wildly as fear and uncertainty grew. Because of the undignified chaos, officials closed the visitors' gallery." ***The New York Times.***

Yet by around noon the worst of the panic appeared to be over, and a rescue operation was under way. Richard Whitney, the debonair and self-confident Vice-President of the Stock Exchange, appeared on the floor. Thrusting through the crowds milling around the glass-domed ticker-tape machines, he made for the trading post where US

Steel was being sold. He ordered 10,000 shares at a price above that which was being asked. He then visited some 20 other posts, again buying large quantities of shares. Within a few minutes, he had spent about $20 million of banker's money. In a statement to the media in an attempt to explain the situation but more importantly to reassure investors, they said that there had been *'a little distress selling'*, but had decided to redress the imbalance and so prop up the market.

The market rallied but the effect was short lived. Brokers, knee deep in sell orders, desperately tried to work how much their customers were losing, minute by minute. 12,894,650 shares were sold that day at ever-falling prices. This compared with a daily average of 4 million the previous month. Business closed at the usual time of 3.00 p.m., but hours later, lights were still blazing from office windows as clerks struggled to deal with the transactions. Restaurants around Wall Street stayed open throughout the night, and hotels were booked to overflowing.

> "In New York hotels the clerks ask incoming guests 'You wanna room for sleeping or jumping?' And you have to stand in line to get a window to jump out of!" **Will Rogers, humourist.**

Friday, 25 October 1929: A newspaper reported that "*Secure in the knowledge that the most powerful banks in the country stood ready to prevent a reoccurrence, the financial community relaxed yesterday*". Most weekend newspapers were confident that the stock market was healthy and the days ahead would see a rush to buy, taking advantage of the lower prices.

Sunday, 27 October 1929: Newspapers declared that the worst of the slump was over, and that business would pick up in the week ahead.

Monday, 28 October 1929: However, shares began to fall again. The bankers this time did not come to the rescue. They said it was not their responsibility to protect stock market prices.

Tuesday, 29 October 1929 - 'Black Tuesday': It was clear that the worst was still to come. Chaos ensued as mad selling took place. Nearly 16.5 million shares were traded. No one was buying. $14,000 million in paper profits were wiped out in a single day. At one stage, an Exchange messenger-boy offered $1 for a block of stock that six days earlier had been worth $100,000, and got it. The stock exchange closed, and remained closed until Thursday afternoon. Prices continued to fall. The bubble of the economic 'boom' had burst. In spite of the prevailing gloom, there were still some who voiced confidence. They included John D. Rockefeller, the oil multi-millionaire, who boldly announced that he and his family were buying *'sound common stocks'*. On learning of this, the entertainer Eddie Cantor, who declared that he had *'lost everything'* in the crash, quipped: "*He can afford to. Who else had any money left!*

The Problem Facing Investors:

- When times were good, investors would buy stock to the value of $100.
- They would pay a deposit of $20 leaving their account owing $80.
- The investor's intention is to sell the shares before the outstanding account has to be paid. The customer would sell when the value of shares has reached $160, pay off the balance in their account, making a $60 profit.
- However, if their stock, which was worth $100, falls in value to $50 before the investor has a chance to sell, they still owe $80.
- The investors sells their shares and pays the stock's value of $50 to the broker, but still has to find another $30 from another source.

Two US Republican Presidents, Coolidge and Hoover, played key roles in the economic collapse and the ensuing Great Depression that lasted throughout the 1930s. A third President, Franklin D Roosevelt, a Democrat, was elected to lift America out of its economic rut. Coolidge, who had been President for 6 years, failed to curb the speculative boom in the stock market, and to restrict easy credit, that led to the Wall Street Crash seven months after he left office.

Herbert Hoover, who had promised the American people 'a chicken in every pot, a car in every garage' when he took office in March 1929. Prior to this, he was the Secretary of State for Commerce under Coolidge and described as the 'architect of prosperity' in the 1920s. In 1933, Hoover's failure to alleviate the severe hardships led to his defeat for the Presidency by Roosevelt. Hoover has received a lot of criticism for his part in the government's response to the economic depression. However, Peter Clements argues that,

> *"Hoover well understood the seriousness of the Depression … In public, however, he had to be optimistic in spite of all the problems; this has led many to argue that he quite lost touch with reality".* **Peter Clements, *Access to History: Prosperity, Depression and the New Deal: The USA 1890-1954, (2008).***

Paul Johnson in *A History of the American People (*1997) is less sympathetic arguing that Hoover should have done less. When the government eventually did intervene and reduce taxes, Johnson argues that this led to a larger government deficit, which in turn, prolonging the depression.

Impact of the Crash in the USA

On businesses:

- Businesses lost billions as stock was sold at low prices so investors could pay their creditors.
- Thousands of banks who had invested their customer's money in the stock market called in their loans with immediate effect.
- Thousands of banks had to close as loans failed to be repaid. In 1929 650 banks failed but by 1931 that had risen to 2,294.
- Those who remained solvent (not bankrupt) were often hard hit. When they heard that the banks were in difficulty they rushed to the banks to withdraw the remainder of their savings.
- Credit collapsed.
- New loans were refused.
- Stock, although greatly reduced in value, was taken as payment. No one, it seemed, was prepared to take financial risks.
- Factories cut back on production, or collapsed altogether. It is estimated that between 1929 and1931 110,000 companies failed.

On individuals:

- Thousands who had been well off lost their life savings or were in financial ruin or bankrupted.

- People were left in debt as their stocks often did not cover what they still owed.
- Companies repossessed people's possessions to reclaim any money they could.
- People could no longer afford to buy consumer goods or invest further.
- Millions lost their jobs as unemployment increased from 3.2% in 1929 to 25.2% in 1932, nearly 13 million people, although historians think it was probably closer to 17 million as illegal immigrants and migrant workers were not part of the official statistics.

- Many unemployed men became *hoboes* who travelled across the country looking for work.
- Wages and prices dipped, as did public spending, which made finding a way out of the crisis much harder.
- People were forced to sell their homes or had them repossessed as they could no longer afford to pay the mortgage.
- Tenants were evicted if they could not afford to pay their rent.
- Homelessness increased as a result and people were forced to live on park benches or in shacks on waste ground made from waste materials such as corrugated iron

or cardboard. Newspapers that were used to cover the homeless were called *Hoover blankets* and those who set up temporary accommodation in shacks were known as *Hoovervilles.*

- The federal government refused to spend taxpayer's money on helping the destitute, who instead had to rely on charitable handouts or local government help.

- Farmers were not making a profit from harvesting their crops or slaughtering their animals as the cost of doing so and then transporting it across the country was too expensive. Therefore, food became hard to get as farmers let their fields of crops rot.
- Bread queues formed in towns and cities across the country. The government could have intervened to ensure continued food supply but were either unwilling or unable to do so, leaving millions desperate for food.

> *"Last summer in the hot weather, when the smell was sickening and the flies were thick there were hundreds of people coming to the dumps everyday. A widow fed herself and her14-year –old son on garbage. Before she picked up food thrown away she always took off her glasses so she could not see the maggots".* **New Republic magazine, 1933.**

Impact of the Crash on the world:

- Set off a global chain reaction: *'When American sneezed the whole world caught a cold'.*
- European nations such as Germany, who were heavily dependent on American credit, saw their economies fall into depression.
- World trade suffered.
- Protective tariffs worsened the situation.

Did the Wall Street Crash cause the Great Depression?

The Great Boom had suddenly turned into the Great Depression that rapidly affected not only the USA but also foreign countries all over the world. However, historians generally agree that the Wall Street Crash did not cause the Depression; it was a trigger rather than as the actual cause; a symptom of a problem whose real causes lay much deeper. The Wall Street Crash revealed how fragile and unstable the economic boom of the 1920s really was.

Many historians, like some businessmen of the late 1920s, believe that the Great Depression was already on its way due to the long-term problems of the 1920s. The dangers of overproduction and under-consumption resulted in a surplus of goods on the market meant companies lost money. The *'get rich quick'* culture was pushing share prices up to levels that were not reflective of the true value of the company making the economy seems stronger than it actually was. By lending money to European countries in order that they could use this money to repay their debt to America was ridiculous and not good for the American economy. Economists of the 1920s such as Joseph Schumpeter, argued that the crash was just the end of the economic cycle of the 1920s and was required to rebalance the economy.

At the time, economic experts failed to see the severe damage caused. They believed that this was a temporary situation. After all, the stock price in October 1929 was still higher than it had been the previous year. The Wall Street Crash simply wiped out the rise in share prices that had taken place since the turn of the year. Moreover, stock markets had crashed before and have done so without any ensuring economic depression. It was not until 1932, when it was clear that the Great Depression was going to continue for a long time, that prices really plunged. Recovery was not, as President Hoover insisted, just around the corner.

Although generally accepted by historians that the Republican policies of *laissez faire* and *'rugged individualism'* in the 1920s were not entirely to blame for the Great Depression, the actions of Republican President Hoover and Republican politicians during the economic downturn did very little to alleviate the impact of the Great Depression. They believed the economic depression was a temporary situation and that things would imminently return to normal without the need for government to step in.

> *"Due to a combination of economic ignorance, confusion and incompetence, US policy makers pursued policies that were high contradictory. They deepened and transformed the recession into a Great Depression".* **Thomas E. Hall and J. David Fergusson, *The Great Depression: An International Disaster of Perverse Economic Policies* (1998).**

Hoover believed that federal and state governments along with private initiatives could solve the problem. This only worked if state governments and charities had money and by 1931, both were running short. Economist Milton Friedman argued that the Federal Reserve Bank was too slow to respond to the economic crisis and failed to introduce more money into the economy after the crash, which resulted in the Great Depression. However, the money that federal government did put into job creation to help end the economic crisis, is now considered to be *'too little too late'*. Either the Republicans did not understand the economic situation of the 1920s and failed to see the economic depression coming, or they did see it coming but did not consider it would result in such a devastating crisis.

Collapse of credit, and collapse of confidence in the US economy, was at the heart of the Great Depression that would dominate the 1930s. The crash of October 1929 signified an end to confidence in the stock market. National confidence fell; there began a period of depression and unemployment without precedent in modern times. In the 1932 Presidential elections, which took place during the heart of the Great Depression, Americans turned to a Democrat, Franklin D. Roosevelt to resolve the economic crisis. The reality was it was going to take a lot more government intervention to resolve the economic problem. FRD's New Deal was seen as the answer to the Great Depression.

Activity 7

1. Explain why Wall Street crashed in October 1929.

2. Describe the events of the Wall Street Crash. You can do this in the form of a story board, comic strip, or any other form of your choice.

3. Explain, in detail, the impact the Crash had on America and the rest of the world. Discuss:
    - The impact on businesses
    - The impact on individuals
    - The impact on the rest of the world

4. Explain the link between the Wall Street Crash and the Great Depression

5. Explain why the crash led to the economic crisis of 1929.

Homework 7

Now that you have gathered all your evidence for this factor, you are ready to use it to write up your sixth factor. You are also ready to conclude on the most significant reason why the economic crisis occurred. Your teacher and your History Skills booklet will help you with the structure of your essay. You will begin this factor in class and will complete it at home.

Conclusion

There are many reasons for the economic crisis of 1929 – 33.

The **Wall Steet Crash** was an important reason for the economic crisis as it can be seen as the major catalyst for the Great Depression as it led to a loss of confidence and a comeplete collapse in credit. However, the Wall street Crash could bee seen as a reaction to the problem rather than a cause of it.

The **economic boom of the 1920s** was an important reason for the economic crisis as this crisis could have been avoided if Herbert Hoover had taken better action. If people had not invested so much in the stock market then there would not have been such a drastic impact on all Americans.

The **over production of goods** is an important reson for the economic crisis as lack of demand meant that it quickly became clear that the consumer industry had produced too much. In 1927 Henry Ford stopped producing one type of his cars as he realised the market was flooded. The wealth of the country was firmly located in he hands of the rich, who also benefited from tax breaks. If the wealth of the country had been more evenly spread then more Americans could have been able to purchase goods.

Internation economic problems was another important reason for the economic crisis as for America to continue being prosperous, the world's economy would have to be prosperous too. If the rest of the world was struggling financially, then it was only a matter of time before America's economy suffered too.

Finally, the weakness of American banking system was an important reason for the economic crisis because by relying so heavily on stocks and shares, the banks would be in great danger if there were ever a fluctuation in the market. It was common knowledge that the news of a collapsed bank would travel fast and would often lead problems. If banks had not been borrowing the savers' money it is likely that their confidence would have stayed intact, along with the money.

Activity 8

Write a detailed conclusion where you show balance between the factors, make a judgement on which is the most important and justify your judgment with detailed evidence.