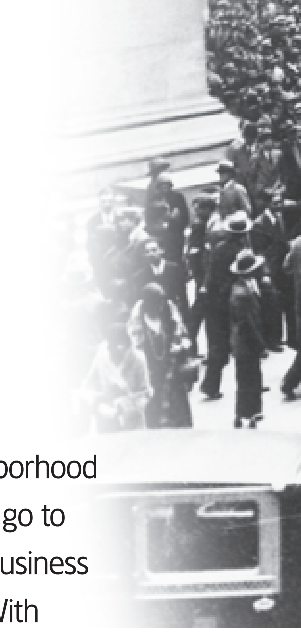
SECTION 1

The End of Prosperity



What You Will Learn...

Main Ideas

1. The U.S. stock market crashed in 1929.
2. The economy collapsed after the stock market crash.
3. Many Americans were dissatisfied with Hoover's reaction to economic conditions.
4. Roosevelt defeated Hoover in the election of 1932.

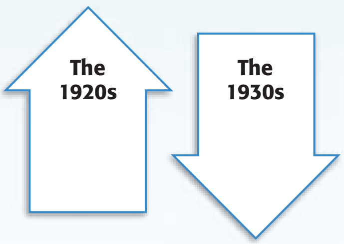
The Big Idea

The collapse of the stock market in 1929 helped lead to the start of the Great Depression.

Key Terms and People

buying on margin, *p. 778*
Black Tuesday, *p. 779*
business cycle, *p. 780*
Great Depression, *p. 780*
Bonus Army, *p. 781*
Franklin D. Roosevelt, *p. 782*

TAKING NOTES As you read, look for information about the American economy in the 1920s and 1930s. Take notes about your findings in a diagram like the one shown.



If YOU were there...

For almost a year you've been working part-time at a neighborhood store. You earn money for your family and still have time to go to school. But when you arrive at work today, your boss says business has been so bad that he can't afford to pay you anymore. With your father out of work, your family had been counting on your income from this job.

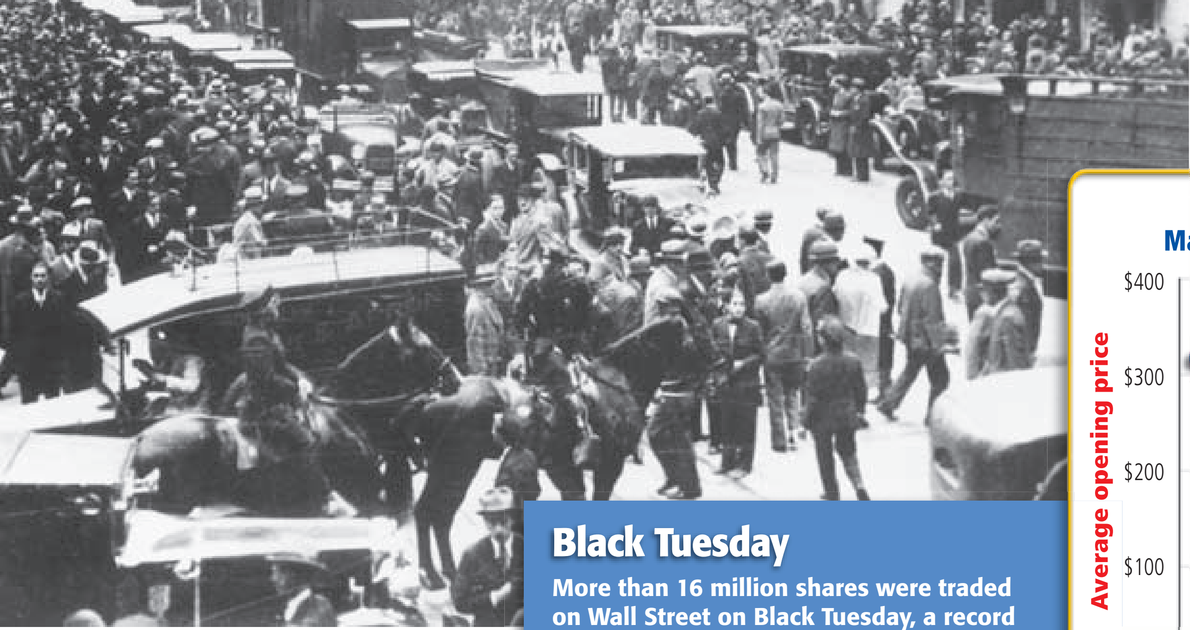
How can you continue earning money to help your family?

BUILDING BACKGROUND By the late 1920s many Americans were used to year after year of economic expansion. It was easy to believe that the prosperity of the 1920s would last forever. But the U.S. economy historically has experienced periods of prosperity followed by periods of economic downturn. This cycle would continue in a way that shocked Americans in the 1930s.

The Stock Market Crashes

During the boom years of the 1920s, one General Motors executive boldly declared: "Anyone not only can be rich, but ought to be rich." For almost all of the Roaring Twenties, the stock market was a bull market, or one with rising stock values. It seemed easy to make money by investing in stocks. For example, you could have bought shares in the Radio Corporation of America for $85 each at the beginning of 1928. You could have sold them a year later for $549 each.

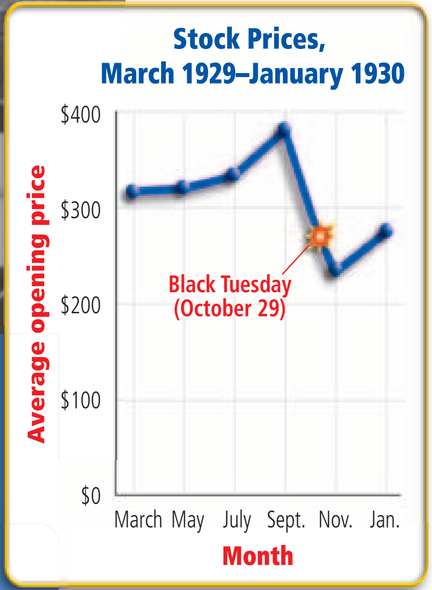
The chance to make huge profits from small investments encouraged many people to buy stocks. Some who could not afford the stocks' full price began **buying on margin**—purchasing stocks on credit, or with borrowed money. These stockholders planned to sell the stocks at a higher price, pay back the loan, and keep what remained as profit. But this plan only worked if stock values went up. Few considered what would happen if the bull market turned into a bear market, or one with declining stock prices.



Black Tuesday

More than 16 million shares were traded on Wall Street on Black Tuesday, a record that stood for 39 years. Just weeks later, roughly one-third of the value of the stock market had disappeared.

How are the events of Black Tuesday shown on the chart?



Stock prices peaked in the late summer of 1929. Then prices started to drop. Frightened investors who had bought stocks on margin rushed to sell their stocks in order to pay off their loans. On Thursday, October 24, panic hit the stock market. Within three hours the market had lost $11 billion in value. The following Monday, prices dropped again. On Tuesday, October 29—a day that became known as **Black Tuesday**—the stock market crashed. So many people wanted to sell their stocks, and so few wanted to buy, that stock prices collapsed. One journalist described the nightmare:

> "The wires to other cities were jammed with frantic orders to sell [stock]. So were the cables, radio, and telephones to Europe and the rest of the world. Buyers were few, sometimes wholly absent . . . This was real panic . . . When the closing bell rang, the great bull market was dead and buried."
>
> —Jonathan Norton Leonard, from *Three Years Down*

In September 1929 the total value of all stocks was $87 billion. Less than two months later, more than $30 billion in stock value had disappeared.

READING CHECK **Analyzing Information** Why was buying on margin risky?

The Economy Collapses

President Herbert Hoover tried to calm public fears by assuring Americans that the economy was still strong. "The fundamental business of the country . . . is on a sound and prosperous basis," he said. But this was just the beginning of more than 10 years of economic hard times.

The Banking Crisis

One immediate effect of the stock market crash was a banking crisis. Banks had invested heavily in the stock market, so they lost heavily when the market crashed. Banks had also lent their customers money to buy stocks on margin. Now those customers were unable to pay back their loans. Some banks went out of business. People who had deposited their life savings in those banks lost everything.

This created a panic all over the country, as customers rushed to their banks to withdraw their money. But since banks usually do not keep enough cash on hand to cover all deposits, the banks soon ran out of money. Many had to close their doors. In 1931 alone, more than 2,200 banks closed. The banking crisis contributed to a business crisis. Some businesses lost their savings in failed banks and had to close. Others were forced to cut back production, which meant they needed fewer workers. In the last three months of 1929, U.S. unemployment soared from under half a million workers to more than 4 million.

The Causes

Throughout the history of the United States, the economy has followed a pattern of ups and downs. When businesses produce more than they can sell, unsold goods pile up. Businesses then cut back on their production and lay off workers. People who have lost their jobs, and others who are afraid they might soon lose their jobs, buy fewer goods. This causes more businesses to fail. This economic event is called a recession. Deep and long-lasting recessions are known as depressions.

As time passes, an economy will tend to bounce back. Consumers buy surplus goods, and companies increase production to meet the demand. Soon more workers are hired and unemployment drops. This up-and-down pattern is known as the **business cycle**.

The United States had experienced recessions and depressions before 1929. Each time, the economy followed the business cycle and recovered. But the economy did not recover quickly from the downturn that began in 1929. Because of its severity and length, it was called the **Great Depression**.

Historians and economists still debate the exact causes of the Great Depression. Some believe that the government's monetary policy was a cause. Most agree that a major factor was the overproduction of goods at a time when the market for those goods was shrinking. Companies built millions of cars and appliances during the 1920s. By the late 1920s, however, most people who could afford these products already had them. That meant that American businesses were producing far more goods than people were consuming.

Uneven distribution of wealth made this problem worse. In 1929 the wealthiest 5 percent of Americans earned one-third of all income, while the bottom 40 percent earned only one-eighth of all income. Millions of Americans simply did not earn enough money to buy expensive new products.

Declining world trade also hurt American manufacturers. Europeans were still recovering from World War I and could not afford many American goods. At the same time, high tariffs made it difficult for European nations to sell products to the United States. As a result, Europeans had even less money to buy American goods.

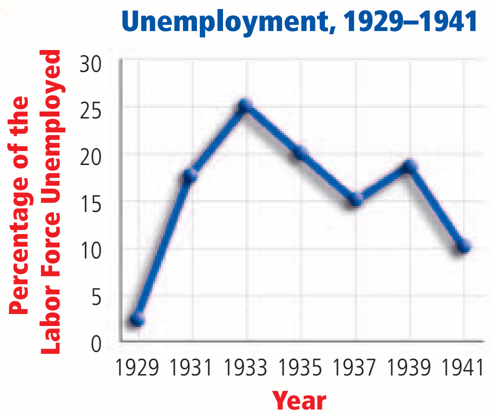
READING CHECK **Making Predictions** Do you think the Great Depression could have been avoided? How?

Unemployment during the Depression

CONNECT TO ECONOMICS

People are considered unemployed if they are trying to find work but do not have a job. High rates of unemployment hurt the economy because unemployed people cannot buy many goods and services. This causes businesses to lose money.

During what year was unemployment the highest?



Primary Source

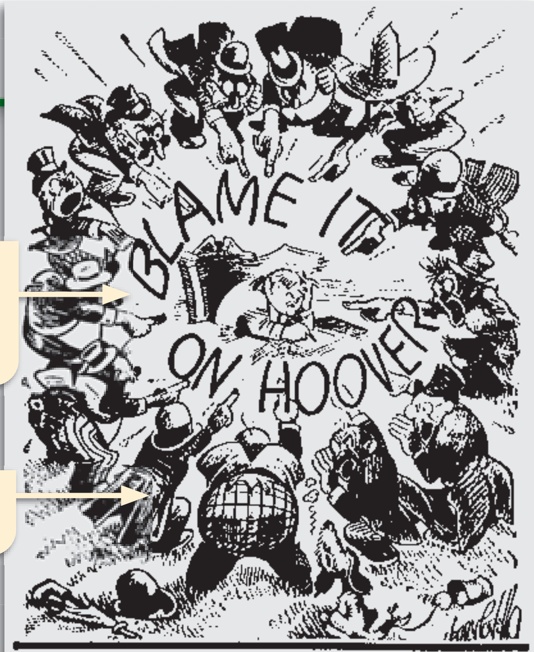
POLITICAL CARTOON

"Blame It on Hoover"

Presidents can affect the economy to some degree through their policies. During the Great Depression, President Hoover was blamed for the financial crisis. Political cartoons like this one gave voice to those Americans who thought Hoover could have prevented the crisis or could have brought it to an end quickly through government programs.

How does the cartoonist show Hoover reacting to the crisis?

What kind of people are blaming Hoover?



A Most Vicious Circle

—Costello in the Albany "News."

ANALYSIS SKILL **ANALYZING PRIMARY SOURCES**

Why is this cartoon useful for showing the feelings of the American public during the Great Depression?

Hoover's Reaction

As unemployment skyrocketed, more and more Americans struggled just to feed themselves and their families. Hungry people searched city dumps for scraps of food. One woman remembered taking off her glasses when she cooked so she could not see the maggots in the meat her family was about to eat. Private charities, as well as state and local governments, set up soup kitchens and bread lines. But the need far exceeded the available resources. Many people turned to President Herbert Hoover and the federal government to lead the relief effort.

Hoover knew that many Americans needed help. He did not believe, however, that it was the federal government's role to provide direct relief to Americans. Hoover felt it was up to private individuals and institutions, not the government, to offer relief. Despite this belief, Hoover did **implement** some new government programs. In 1932 he created the Reconstruction Finance Corporation (RFC). That year, the RFC loaned $1.2 billion to 5,000 different financial institutions, including banks and farm mortgage companies. Hoover continued to resist giving direct assistance to individuals.

This angered Americans who believed the president should do more to fix the economy. People bitterly referred to empty pockets turned inside out as Hoover flags. Groups of tin and cardboard shacks built by homeless families were nicknamed Hoovervilles.

In 1932 a new Hooverville was built in Washington, D.C. Its more than 17,000 residents were World War I veterans, some with their families. Called the **Bonus Army**, they had come to the capital to demand early payment of a military bonus. After the government denied the payment, most of the veterans returned home. About 2,000, however, stayed in their shantytown.

President Hoover authorized General Douglas MacArthur to use U.S. troops to evict the Bonus Army. MacArthur used force, including tear gas and tanks, to scatter the veterans. Several veterans were killed. The public reacted with outrage to the government's treatment of war veterans. Americans would have a chance to express this frustration in the upcoming election.

ACADEMIC VOCABULARY

implement put in place

READING CHECK **Making Generalizations**

How would you describe President Hoover's response to the Depression?

Election of 1932

THE IMPACT TODAY

Before 1932, candidates did not attend their party's nominating convention. Roosevelt broke with this tradition, setting a new precedent. Today presidential candidates give televised speeches at party conventions.

The Republican Party nominated Herbert Hoover again for president in 1932, but few people believed he could win. Regarding his chances of re-election, even Hoover realized that "the prospects are dark." Still, he began campaigning hard for a second term.

He called the election "a contest between two philosophies of government." He warned that the government aid programs Democrats were promising would weaken Americans' spirit of self-reliance.

By 1932, however, much of the public had lost confidence in Hoover. Many even blamed him for the Depression. In contrast, as governor of New York during the first years of the Depression, **Franklin D. Roosevelt** had taken active steps to provide aid. He directed the state government to provide relief for the state's citizens, especially farmers. He also helped establish the Temporary Emergency Relief Administration, which gave unemployment assistance to many out-of-work New Yorkers.

Roosevelt's confident and optimistic personality appealed to many voters. At the Democratic Party convention, Roosevelt declared to Americans: "I pledge you, I pledge myself, to a new deal for the American people." Voters responded overwhelmingly to this message of hope. Roosevelt won the 1932 election in a landslide. In addition, the Democrats won strong majorities in both houses of Congress.

READING CHECK **Analyzing Information** How did Franklin D. Roosevelt win the 1932 presidential election?

SUMMARY AND PREVIEW After the stock market crash and the start of the Great Depression, Franklin Roosevelt offered hope for the future. In the next section you will learn about his programs for relief.

Section 1 Assessment

Reviewing Ideas, Terms, and People

1. **a. Recall** Why did the stock market crash in 1929?
   b. Compare How is **buying on margin** similar to buying on an installment plan?
2. **a. Recall** What happened to the economy as a result of the stock market crash?
   b. Explain Why did many banks close in the late 1920s and early 1930s?
   c. Draw Conclusions What do you think was the goal of U.S. tariffs?
3. **a. Make Inferences** Why did many Americans blame President Hoover for the Depression?
   b. Describe What did the **Bonus Army** want?
   c. Elaborate Do you think Americans were justified in blaming Hoover for the hard times?
4. **a. Identify** Which party was more successful in the 1932 elections?
   b. Make Inferences Why do you think voters did not listen to Hoover's ideas about government?
   c. Elaborate How do you think **Franklin D. Roosevelt**'s experiences as governor of New York helped him appeal to voters?