US History
The Great Depression & The New Deal

Learning Target:

I can assess the economic factors leading to the Stock Market Crash and the depression to follow.

1. The Stock Market Crash

Economic Troubles Coming –

-Although the 1920s appeared to be a decade of prosperity some felt there were problems with the US economy

Basic industries were struggling

-Railroads – lost business to busses, trucks, and automobiles
-Coal mining – lost business to natural gas and oil
-Steel – overproduction of cars and construction weakened demand

Farmers struggled to make money

-Agricultural prices dropped after WWI demand wore off

Consumers had less money to spend

-Originally kept spending on credit
-As debt increased Americans began spending less and less
-Less spending bad for the economy

Uneven distribution of wealth between poor and rich

-Wealthiest 1% saw their income rise by 75%
-9% increase in income for Americans as a whole

Hoover's Plan For The Country

-Believed the government should continue to have laissez-faire economic policy

Hoover's Rugged Individualism Speech:

> *"We were challenged with a peace-time choice between the American system of rugged individualism and a European philosophy of diametrically opposed doctrines – doctrines of paternalism and state socialism. The acceptance of these ideas would have meant the destruction of self-government through centralization of government. It would have meant the undermining of the individual initiative and enterprise through which our people have grown to unparalleled greatness.""*

<u>Playing The Market –</u>

-Confidence in economy also reflected in the stock market
-American investors poured millions into the stock market

Bull Market – A market with an upward trend in prices

Bear Market – A market with a downward trend in prices

Stock Speculation – Playing the market by buying and selling to make a profit

-Stock speculation became widespread and stimulated economic growth
-The rapid buying and selling however artificially inflated the prices of stocks
-Overpriced stocks could be bad if demand was ever to decrease

Margin Buying – The practice of purchasing stocks with borrowed money

-Many stock speculators were buying their stock with as little as 10% of the price and borrowing the rest
-Margin buying was great as long as the market remained a bull market
-If the market turned bear investors would find themselves in deep debt

<u>The Crash –</u>

October 24, 1929
-Rising interest rates made a large number of investors very nervous
-Large amounts of stocks sold but the worst was yet to come

Black Tuesday –
-October 29, 1929
-Prices sank to shocking lows as 16 million shares of stock were sold
-Investors lost $30 billion by mid-November

Stock Brokers and Debt –
-As stock prices fell brokers contacted investors who purchased their stocks on margin
-Brokers demanded cash to cover their loans
-Investors, unable to pay the debt, had to sell their stock at huge losses
-By mid November leading stocks values were cut in half
-By the end of 1920 losses in the crash exceeded the total cost of US involvement in WWI