Content Reading Guide: The Great Depression Begins

There was much prosperity in the early 1920s. Yet, as the decade came to a close, the economy became very unsettled. Many people lived beyond their means with credit in the 1920s. They bought items they did not have cash for by borrowing money from a bank. There was also an uneven distribution of wealth. The rich were becoming wealthier as the middle class became burdened with debt. Once their debt became radically difficult to manage, many Americans then began buying less because they had less money.

The Dow Jones Industry Average, a poll of the economic health of 30 large businesses in the USA, displayed prosperous times in the 1920s. There was a Bull Market for most of the 1920s, this meant there were rising stock prices and many investors were reaping profits. Many investors bought stocks on “speculation,” meaning they were hoping to make a quick profit. Some started “buying on margin.” This meant they were borrowing money to buy stocks in the hopes that, when their stocks reaped profits, they could pay back their loans.

After WW I, international demand for food was high. European nations bought a lot of food from the USA and these customers no longer needed America for food. The USA was “too productive” in farming. Farmers had so many crops that there were not enough customers to buy them. Railroads, steel, and textile factories were seeing profits fall as people began to spend less. Some government leaders felt the government should step in to intervene and try to “fix” the economy, particularly the impending problems in the farming industry. Legislators tried to pass the McNary-Haugen Bill. The plan was that the government would buy food and then sell it. President Calvin Coolidge vetoed the bill. He was a Republican who believed in a hands off “laissez faire” government and trickledown economics. He asserted the private market should work out problems without the government’s involvement. When farmers fell behind on loan payments to their banks, the banks foreclosed on many farmers and seized their property.

Stocks began to fall in value dramatically in 1929. Instead of a healthy Bull Market, the market became an unhealthy Bear Market, meaning stocks were falling in prices and investors were not reaping profits. Many people panicked and moved their money out of banks. On “Black Tuesday,” October 29, 1929, as stocks fell, many tried to sell their stock. Yet, it was too late. Virtually nobody wanted to buy the stocks. Since many investors had practiced “buying on margin” they were left in a financial mess. Now, their stocks had dropped in value and they could not pay back the money they borrowed to buy the stocks. Unemployment exploded, inflation grew, and businesses closed. By the 1930s, thousands of banks failed and had closed. If you had money in these banks, you were not guaranteed to get anything back. Many people lost all the money they had in bank accounts. 25% of the nation became unemployed. This crushed the world markets as well.