The Great Depression
WORLD'S HIGHEST STANDARD OF LIVING

There's no way like the American Way
What you should have learnt so far:

• What was the Wall Street Crash?

• What were the causes of the Wall Street Crash?
What you’re going to learn this week and next:

• What was the Great Depression?

• Why did the Wall Street Crash lead to the Great Depression?

• How did the government respond to the Great Depression?

• What were the effects of the Great Depression?
The Great Depression

• term used to describe the collapse of the world economy in 1929 following the Wall Street Crash.
Shares / stocks

• One of the equal parts into which a company’s capital is divided, entitling the holder to a proportion of the profits
Speculation

- investment in stocks in the hope of gain but with the risk of loss.
The Stock Market / Exchange

- a place where stocks / shares are bought and sold
Wall Street

• the name given to the New York Stock Exchange due to the street name, where shares / stocks are traded (financial centre of the USA)
So, what is a depression?

The trade cycle
The **Great** Depression

- What was the Wall Street crash?

AND

- Why did it lead to the Great Depression?
The economic boom of the 1920s came to a sudden end in October 1929. In June 1929 prices of stocks and shares had reached new highs. The stock market seemed to be a quick and easy way to get rich. More and more people wanted to 'play the market'.

The Wall Street stock market was not regulated. Anybody could buy shares and they could be bought 'on the margin'. This meant, for example, that people could buy $1000 of stock for only $100 and borrow the rest. Buying 'on the margin' became a common practice. People waited for the share prices to go up again and then resold their shares for a profit. It was usually easy to pay back the loan and still make money.

By the summer of 1929 there were 20 million shareholders in America and prices continued to rise. But in October 1929 things began to change. Some people realised that share prices had risen too high and wanted to sell before they fell.
‘What was the Wall Street Crash?’

• Boom of the 1920s came to sudden end Oct 1929
  – June 1929 – stock & share prices reached new highs
  – Stock market seemed quick & easy way to get rich

• However, Wall Street not regulated
  – Buying ‘on the margin’ (borrowing money to buy shares and paying loan when share prices went up)

• Summer of 1929 – 20 million shareholders in USA
  – Prices cont. to rise
  – Oct 1929 – change. Some people realised prices too high, wanted to sell before they fell.
• ‘If a lot of people want to buy the shares the price will go up. If a lot of people start selling the shares and not so many people want to buy them, the price will go down.’
Causes of the Wall Street Crash

• At beginning of 1929 the US economy *appeared* very healthy. However, some major weaknesses & problems:
  
  – Weaknesses in the American economy
    • Overproduction
    • Poverty (New-found wealth of 1920s not shared by everyone)
      – Farmers and farm workers
      – New immigrants
      – Workers
      – Blacks
    • Trade (domestically AND internationally)
  
  – Problems on the stock market
    • Mid-1920s – Speculation began to increase
    • People who could ill afford it involved in speculation
    • Panic
So, how / why did the Wall Street Crash lead to the Great Depression?
Why did the Wall Street Crash lead to the Great Depression?

• Read p. 72-73 of *The USA between the wars.*
Why did the Wall Street crash lead to the Great Depression?

• The Wall Street Crash did not cause the Great Depression on its own. However, it is arguable as to whether the G.D. would have been as severe and immediate if the Wall Street Crash did not occur.

• The Wall Street Crash is considered the immediate / short-term cause of the G.D. which then exposed some of the longer-term weaknesses of the American economy, leading to the G.D.

• An example of how the Wall Street Crash affected the broader economy can be seen in the ‘bank runs’
The stock market crash of October 1929 left the American public highly nervous and extremely susceptible to rumours of impending financial disaster. Consumer spending and investment began to decrease, which would in turn lead to a decline in production and employment. Another phenomenon that compounded the nation’s economic woes during the Great Depression was a wave of banking panics or “bank runs,” during which large numbers of anxious people withdrew their deposits in cash, forcing banks to liquidate loans and often leading to bank failure.
THE FIRST BANK RUNS

The first of four separate banking panics began in the fall of 1930, when a bank run in Nashville, Tennessee, kicked off a wave of similar incidents throughout the Southeast. During a bank run, a large number of depositors lose confidence in the security of their bank, leading them all to withdraw their funds at once. Banks typically hold only a fraction of deposits in cash at any one time, and lend out the rest to borrowers or purchase interest-bearing assets like government securities. During a bank run, a bank must quickly liquidate loans and sell its assets (often at rock-bottom prices) to come up with the necessary cash, and the losses they suffer can threaten the bank’s solvency.
The bank runs of 1930 were followed by similar banking panics in the spring and fall of 1931 and the fall of 1932. In some instances, bank runs were started simply by rumours of a bank’s inability or unwillingness to pay out funds. In December 1930, the New York Times reported that a small merchant in the Bronx went to a branch of the Bank of the United States and asked to sell his stock in the institution. When told the stock was a good investment and advised not to sell, he left the bank and began spreading rumours that the bank had refused to sell his stock. Within hours, a crowd had gathered outside the bank, and that afternoon between 2,500 and 3,500 depositors withdrew a total of $2 million in funds.
The bank failures

• The run on America’s banks began immediately following the stock market crash of 1929. Overnight, hundreds of thousands of customers began to withdraw their deposits. With no money to lend and loans going sour as businesses and farmers went belly up, the American banking crisis deepened.
History channel: The 1929 stock market crash

http://www.history.com/topics/great-depression/videos/1929-stock-market-crash?m=528e394da93ae&s=undefined&f=1&free=false
Crash Course – the Great Depression

- Inflation:
- Deflation:
- Tariffs:
- Herbert Hoover:
- The Gold Standard:
- The bank failures:
Crash Course – The Great Depression
The effects of the Great Depression:

• Read p.74-77 of *The USA between the wars*.
  – Make sure you carefully examine each of the sources.