

## The Great Depression

Theme: Work, Exchange, Technology

**Learning Objective 7.J:** Explain the causes of the Great Depression and its effects on the economy.

### Economic Transition

**KC-7.1.I:** The United States continued its transition from a rural, agricultural economy to an urban, industrial economy led by large companies.

- Agricultural Economy
  - Farmers aided by European \_\_\_\_\_ during WWI
  - End of war → \_\_\_\_\_ = \_\_\_\_\_
  - Over-farming, drought create conditions for \_\_\_\_\_
  - Migration out of great plains e.g. “\_\_\_\_\_” to California
- Urban Industrial Economy
  - Factory system continues to \_\_\_\_\_ wealth gap (union membership \_\_\_\_\_ in 1920s)
  - Increase use of \_\_\_\_\_ to purchase goods
  - Overproduction of consumer goods
  - \_\_\_\_\_ → retaliatory tariffs = loss of overseas markets
  - Rise in stock market speculation, risky investing by \_\_\_\_\_

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**KC-7.1.I.C:** Episodes of credit and market instability in the early 20th century, in particular the Great Depression, led to calls for a stronger financial regulatory system.

- Credit and Market Instability
  - Stock Market crashes on Oct. 29, 1929 (“\_\_\_\_\_”)
  - Fear in banking’s liquidity led to \_\_\_\_\_
- \_\_\_\_\_
  - 25% \_\_\_\_\_, \_\_\_\_\_ down 50%, 20% of all banks close
  - Pres. Hoover ultimately blamed
    - \_\_\_\_\_, Hoover \_\_\_\_\_, Hoover \_\_\_\_\_, Hoover \_\_\_\_\_
- Hoover’s Response
  - Slow to act, believed the economy would bounce back
    - \_\_\_\_\_ marches on Washington for government action
  - \_\_\_\_\_ - attempt to stabilize crop prices

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- \_\_\_\_\_ - bailouts to railroads, banks, life insurance co., expected \_\_\_\_\_
- Roosevelt's Response
  - \_\_\_\_\_ - judge bank's solvency
  - \_\_\_\_\_ - Prevents banks from investing deposits in stocks
  - \_\_\_\_\_ regulates Wall Street
  - \_\_\_\_\_ and National Labor Relations Board more heavily involved in business
    - Minimum wage, max hours, child labor

**Federal Response**

KC-7.1.III: During the 1930s, policymakers responded to the mass unemployment and social upheavals of the Great Depression by transforming the U.S. into a limited welfare state, redefining the goals and ideas of modern American liberalism.

- The New Deal creates a safety net
  - \_\_\_\_\_ creates national pension system, unemployment compensation
  - Allegations of \_\_\_\_\_
    - Pro-union policies, increased regulations, deficit spending

**Recap**

- The US continued to become more urban
- The Stock Market crash was the catalyst for the Great Depression
- President Hoover was largely blamed for the Depression for his lack of action after the crash
- The policies and programs in FDR's New Deal will build the foundation for a limited welfare state

**Part II**

**Short Answer Questions**

Answer the following in AT LEAST three sentences.

1. Explain the causes of the Great Depression and its effects on the economy.

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### Secondary Source Document Analysis

Read the essay and fill in the chart below. Identify one claim for each subsection of the essay and provide a piece of evidence that corresponds to the claim.

Title:	
Author:	
Historical Period and Topic:	
Thesis:	
Claims	Evidence
Identify an alternative viewpoint to the author's thesis.	
Does the author address this viewpoint by refuting or conceding to it?	

## The Great Depression

Herbert Hoover got many things wrong about the great economic calamity that destroyed his presidency and his historical reputation, but he got one fundamental thing right. Much legend to the contrary, the Great Depression was not entirely, perhaps not even principally, made in America. “The primary cause of the Great Depression,” reads the first sentence of Hoover’s *Memoirs*, “was the war of 1914–1918.”

Though economists and historians continue to this day to debate the proximate causes of the Great Depression, there can be little doubt that the deepest roots of the crisis lay in the several chronic infirmities that afflicted the post–World War I international economic order and touched every country on the planet. The fighting had taken a cruel toll on key economies like those of Britain, France, and Germany, the core societies of the advanced industrialized world. The lingering distortions in trade, capital flows, and exchange rates occasioned by the heedlessly punitive Treaty of Versailles, as the economist John Maynard Keynes observed at the time, managed to perpetuate in peacetime the economic disruptions that had wrought so much hardship in wartime. What was more, memories of the war’s bitter fighting and vengeful conclusion rendered the post-war international atmosphere toxic, poisoning the wells of traditional diplomacy and dooming any efforts at concerted multi-lateral action to deal with the gathering crisis. To those abundant physical and institutional ills might be added the psychological maladies of near-religious faith in laissez-faire and the gold standard as the most sacred of orthodoxies, the economic equivalents of the Nicene Creed. All of this added up to a witches’ brew of economic illness, ideological paralysis, and consequent political incapacity.

The United States had participated only marginally, and only late in the day, in the First World War. But even that relatively modest departure from the nation’s historic tradition of isolating itself from European affairs was sufficiently costly and so disillusioning that Americans turned their country decidedly inward in the 1920s. They disarmed their military forces and swiftly dismantled the nation’s war machinery. The US Senate refused to ratify the Treaty of Versailles and rejected membership in the nascent League of Nations, even though the League had been the brain-child of America’s wartime president, Woodrow Wilson. In 1922 the Congress passed one of the highest tariffs in United States history, effectively closing the American market to foreign vendors. It sealed off that market even more tightly when it passed the notorious Smoot-Hawley Tariff eight years later. The government in Washington insisted throughout the postwar decade that the Europeans must repay the entirety of the loans extended to them by the US Treasury during the war, a short-sighted, penny-pinching, Scrooge-like policy that added heavy additional ballast to an international financial system already staggering under weighty economic burdens. And in 1924 the republic for the first time in its history imposed a strict limit on the number of immigrants who could annually enter the country, slamming the door shut against millions of souls who wanted to claim the American dream, or the American refuge, as their own. They included (though Americans could not yet know it) would-be fugitives from Nazi persecution in the disastrous decade that followed. Militarily, diplomatically, commercially, financially, even morally, Americans thus turned their backs on the outside world and plunged headlong into the intoxicating diversions of the fabled Jazz Decade.

Prosperity in the 1920s in America was real enough, but it was not nearly so pervasive as legend has portrayed. The millions of immigrants who had swarmed into the nation’s teeming industrial cities in the preceding decades remained culturally isolated and economically precarious in gritty ethnic ghettos. The overwhelming majority of black Americans still dwelled in the eleven states of the old Confederacy, the poorest and most disadvantaged people in America’s poorest and most backward region. Well before the Great Depression of the 1930s smote the land, almost as soon as the Great War concluded in 1918, a severe economic crisis had beset the farm-belt. It did not entirely lift until the next world war, more than twenty years later. The sorely afflicted countryside was still home to nearly half of all Americans in the 1920s, and one out of every five workers still toiled on the nation’s fields and farms. Prosperity seemed perpetually to pass them by. Virtually none of them enjoyed such common amenities of urban life as electricity and indoor plumbing.

As the decade of the twenties reached its operatic climax, other maladies began to appear, faintly at first, but with mounting urgency as the Depression began to unfold. A curiously ramshackle, poorly regulated private banking system, a legacy of Andrew Jackson’s long-ago war on central banking, had managed to wobble its dysfunctional way into the modern era. Some twenty-five thousand banks, most of them highly fragile “unitary” institutions with tiny service areas, little or no diversification of clients or assets, and microscopic capitalization, constituted the astonishingly vulnerable foundation of the national credit. As for government—public spending at all levels, including towns, cities, counties, states, and the federal government itself, amounted only to about 15 percent of GDP in the 1920s, one-fifth of which was federal expenditures. “If the federal government should go out of existence, the common run of people would not detect the difference in the affairs of their daily life

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for a considerable length of time,” said famously taciturn President Calvin Coolidge in one of his more long-winded (and accurate) assessments of the national scene. Ideology aside, its very size made the federal government in the 1920s a kind of ninety-pound weakling in the fight against the looming depression monster.

Yet for most of the 1920s the mood of much of the country, impervious to news of accumulating international dangers and buoyed by wildly ascending stock prices as well as the congenital optimism that is every American’s birthright, remained remarkably upbeat. In the fateful autumn of 1929, the bubble burst. The Great Crash in October sent stock prices plummeting. Banks failed by the thousands. Businesses collapsed by the tens of thousands. Millions—nobody knew how many, so primitive were the government’s fact-finding organs—went unemployed. Herbert Hoover, elected just months earlier amid lavish testimonials to his peerless competence, integrity, and can-do talents, saw his presidency shattered and his reputation forever shredded because of his inability to tame the depression demon—though, again contrary to legend, he toiled valiantly, using what tools he had and even inventing some new ones, to get the upper hand.

By 1932, some thirteen million Americans were out of work, one out of every four able and willing workers in the country. Even those horrendous numbers could not begin to take the full measure of the human misery that unemployment entailed. Given the demography of the labor force and prevailing cultural norms that kept most women, and almost all married women, out of the wage-paying economy, a 25 percent unemployment rate meant that, for all practical purposes, every fourth household in America had no breadwinner, no income, no hope. Many Americans believed they were witnessing not just a massive market downturn, but the collapse of a historic economic, political, and social order, perhaps even the end of the American way of life. Yet curiously, as many observers noted, most Americans remained inexplicably docile, even passive, in the face of this unprecedented calamity.

Among those who were perplexed by the apparent submissiveness of the American people as the Depression descended was Franklin D. Roosevelt. “There had never been a time, the Civil War alone excepted,” an associate recollected Roosevelt saying during the 1932 presidential campaign, “When our institutions had been in such jeopardy. Repeatedly he spoke of this, saying that it was enormously puzzling to him that the ordeal of the past three years had been endured so peaceably.” That peculiar psychology, rooted in deep cultural attitudes of individualism and self-reliance, worked to block any thought of collective—i.e., political—response to the crisis. Understanding that elusive but essential American cultural characteristic goes a long way toward explaining the challenges that faced any leader seeking to broaden the powers of government to come to grips with the Depression.

Elected to the presidency in 1932 on a platform that promised “a new deal for the American people,” Roosevelt now took up that challenge, with results that were transformative for American society. FDR was destined to hold office for more than a dozen years. He was thrice re-elected, a record matched by no previous incumbent and forbidden to all future presidents by the passage of the Twenty-second Amendment to the Constitution in 1951. FDR was then and has remained ever since a surpassingly enigmatic figure. His personality perplexed his contemporaries and has challenged his biographers for more than half a century. His long-serving Secretary of Labor, Frances Perkins, called him “the most complicated human being I ever knew.” Yet for all the opacity of his innermost character, he clearly brought with him to the presidency, and bequeathed to the American people, one simple and supremely important belief. It is appropriate to call it a vision: that American life could be made more secure.

Roosevelt, like Hoover before him, never did find a remedy for the Great Depression. It hung heavily over the land through virtually all of Hoover’s presidency, through Roosevelt’s first two terms, down to 1940 and even beyond, nearly a dozen years of suffering and anxiety without equivalence in the history of the Republic. Before World War II came along and revolutionized all political and economic formulas, none of FDR’s exertions managed to wrestle the unemployment rate below fourteen percent. For the decade of the 1930s as a whole, it averaged 17 percent. Some critics in fact blame the economy’s stubborn inability to recover on Roosevelt’s own allegedly anti-business policies.

Yet while Hoover’s failure to restore the economy led to his political ruin, Roosevelt seized upon the enduring economic crisis as a matchless political opportunity. FDR used the occasion of the Great Depression to break the untamed bronco of let-’er-rip, buccaneering, laissez-faire capitalism that had gone unbridled for more than a century before the 1930s. The New Deal invented new governmental institutions like the Federal Deposit Insurance Corporation, the Securities and Exchange Commission, and the National Labor Relations Board to bring stability to the

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historically shaky banks, the casino-like stock exchanges, and the often violently tumultuous world of labor relations. New Dealers found artful ways to make mortgage lending more secure, unleashing the money and the energy that built the suburbs of the Sunbelt after World War II. Probably most famously, they erected a comprehensive system of unemployment and old-age insurance to protect laid-off workers and the elderly against what FDR called “the hazards and vicissitudes of life.” Achieving security was ever the core value and always the dominant motif of the New Deal’s many initiatives. Americans have lived ever after in a world rendered more predictable, less volatile, safer, and for those reasons more prosperous and probably also more just, than they would have enjoyed, or endured, without FDR’s achievements.

The world the American people tried to exclude after the First World War could not, in the final analysis, be kept at bay. Adolf Hitler and Franklin Roosevelt came to power within weeks of one another. Hitler was installed as German chancellor on January 30, 1933. Roosevelt was inaugurated as President of the United States just thirty-three days later, on March 4. The entire history of Roosevelt’s presidency unfolded under the shadow of Hitler’s chancellorship. All of the drama of the famed “Hundred Days” in 1933, the great social and economic reforms of 1934 and 1935, the battle over the composition of the Supreme Court in 1937, and of course FDR’s struggle against isolationism, and the attendant agony of uncertainty about Europe’s fate, and Asia’s, and America’s relation to the gathering maelstrom of war, all played out against the menacing backdrop of Hitler’s dictatorship, the rising threat of Nazism, and the opportunistic belligerency of Japanese militarists. The challenges of the Great Depression and the accomplishments and shortcomings of the New Deal, and of FDR, cannot be understood outside of that framework. In that sense the story of the Great Depression is not simply the story of the American people in a moment pregnant with danger and opportunity; theirs is but part of a larger story of people in every part of the globe who were swept up in the enormous calamities of the Great Depression and, ultimately, World War II.

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*David Kennedy is Donald J. McLachlan Professor of History, Emeritus at Stanford University. His scholarship is notable for its integration of economic and cultural analysis with social and political history. Over Here: The First World War and American Society (1980) used the history of American involvement in World War I to analyze the American political system, economy, and culture in the early twentieth century. Freedom from Fear: The American People in Depression and War (1999) recounts the history of the United States in the two great crises of the Great Depression and World War II.*