**US History – MT. 5 – Assignment #6 (A)**

**Measurement Topic 5: The Great Depression and the New Deal**

**What caused the Great Depression?**

During the 1920’s the United States experienced tremendous growth; peoples wages increased, the number of factories, homes, businesses, inventions all increased. The 1920’s were years filled with much wealth for the United States.

One area that saw huge wealth was in the area of stocks in companies. From 1920 to 1929 stock prices soared. Everyone wanted to get in on the tremendous wealth that was being created from buying stocks. Stock brokers began **over speculating** on stock prices, which encouraged people to **buy stocks on margin**, paying a small amount for a stock and borrowing the rest of the money for the stock in hopes that in a short time the stock would be profitable and the loan could be paid off with money left over. This **over speculating** and **buying on margin** lead to the stock market crash because stocks were being purchased for a price higher than they were really worth. *(ex. Someone might by stock for ford at $15 a stock, but because a lot of people bought stock, the price increased to $50 a stock. The stock is really only worth $15, so when people bought on margin they were buying at a fake price)* The stock market crashed because when people began selling the stock to get the higher price, the stock prices fell, making those that had borrowed money for the fake high price lose all their money. *(When the people that owned the $50 stock sold, the price of the stock went down, but those that still owned stock, but had paid $50 lost money because the stock value went down.)* On October 29, 1929 so many people sold their stocks that the prices fell to fast and hundreds of people, companies, and banks lost all their money.

As a result of the stock market crash banks also lost money and closed. Banks had lent money to stock investors when stocks were high expecting to get a good return, however when the stock market crashed, the investors couldn’t pay their loans back to the bank resulting in the banks losing money. **Banks had also invested depositor’s (people’s) $$ in the stock market**, so when the stock market crashed the banks also lost all those people’s money as well. This created a run on other banks that were not closed. People ran to their banks to take all their money out, which resulted in more banks closing down due to not having money. By 1932 about 70% of all the banks in the USA had closed down.

As the stock market and banks were crashing and closing another issues was taking place in the USA, overproduction of goods. During the 1920’s factories were able to produce a lot of new stuff, much of it very expensive stuff. People began purchasing these new inventions on installment plans. Factory owners had grown rich but had not raised the wages/salaries of their workers. Workers had to cut back on stuff to pay their bills. When people cut back on their purchases, companies lost money, so they cut their workers’ wages and/or just fired them **= HIGH UNEMPLOYMENT**. This caused a vicious cycle of people not buying, factories not making stuff, so they fired people, more people not buying stuff, more factories not making stuff, a lot more people being fired, so on and so on. The government also charged high tariffs (taxes) and people didn’t want to pay the high tariff so they stopped buying resulting in more layoffs.

The **Federal Reserve** (main USA bank) made a big mistake. They kept **loan rates low** (means when you pay back a loan you pay back a small fee for borrowing the money) thinking if people kept borrowing and spending everything would be ok. WRONG! People borrowed money and bought stocks hoping the stocks would give them fast money, and they lost. So this also became part of the vicious cycle.

**What steps were taken by the federal government (congress, president Hoover and FD Roosevelt) to fight the economic crisis?**

President Hoover hoped to make the economic issue seem like nothing. He tried to pretend everything would be better soon. He was also **against proving individual families with assistance**. President Hoovers plan was to call together business leaders of factories, railroads and other owners and he asked them to **voluntary not lay off people in order to keep the economy going**. They did this for one month but then had to lay people off. President Hoover next plan of action was to increase the **public workers or government funding of building projects. Hoover hoped this would replace some jobs lost in the private sector** (factory jobs, mining jobs). Hoover also set up the **National Credit Corporation to help the banks that were in trouble**. This program would put some money away to give to banks to help them make loans to people in their communities in hope to start new jobs and spending. He also set up the **Reconstruction Finance Corporation to loan money to private business, railroad companies** and agricultural groups. Unfortunately these programs Hoover put into place happened too late and had little or no impact towards the American people. Because people blamed Hoover for not doing enough to help the American people, he was not reelected.

The Depression worsened in the months prior to Roosevelt’s inauguration as President of the USA, March 4, 1933. Factory closings, farm foreclosures and bank failures increased, while unemployment soared. Roosevelt faced the greatest crisis in American history since the Civil War. Once he was President started immediate actions, he closed the banks temporarily, and during the first “100 days” he passed the recovery legislation known as The New Deal. One of the first laws created the **Securities and Exchange Commission**. This organization kept an **eye on the stock market to make sure no one was buying on margin or over speculating**. One of the most important and **lasting effects of the New Deal** is that banks now **have insurance that protects individual’s bank accounts** so that they don’t lose all their money.

A list of some of the New Deal laws/programs created for Americans during the Great Depression.

* **Tennessee Valley Authority – built dams for flood control and electrical power**
* Civilian conservation corps – gave jobs to men 18-25 in the forest
* Agricultural Adjustment Act – paid farmers to not grow certain crops to increase prices so farmers could make money
* Federal Emergency Relief Agency – let the federal government give state governments money to help the unemployed
* Public works and Civil works administration – gave people constructions jobs (schools, roads, airports, parks, bridges)

**Answer the following questions with COMPLETE SENTENCES.**

1. Why is over speculating on the price of a stock bad?
2. Why was buying on margin bad?
3. What bad decisions did the banks do that led to their closing?
4. What caused high unemployment?
5. What mistake did the Federal Reserve make?
6. President Hoover asked business owners to do what?
7. President Hoover created public works projects in hopes of?
8. What was the goal of the National Credit Corporation?
9. What was the job of the Reconstruction Finance Corporation?
10. What was the job of Securities and Exchange Commission?
11. What was one lasting effect of the New Deals?
12. What program new deal program led to dams for flood control and electrical power?