

1 Hoover and the Crash

TERMS & NAMES

Herbert Hoover
speculation
buying on margin
Black Tuesday
Crash of 1929
Great Depression
public works
projects
Bonus Army

MAIN IDEA

After the stock market crash of 1929, the U.S. economy sank into the worst depression in its history.

WHY IT MATTERS NOW

Today the government regulates banking and the stock exchange to prevent such severe depressions.

ONE AMERICAN'S STORY

Not everyone prospered in the 1920s. For example, many farmers suffered poverty because farm prices stayed low. Republican senator George Norris from Nebraska joined a group of lawmakers called the farm bloc, who sought to pass new laws to aid farmers. Norris also criticized bankers for not caring about farmers' problems.

A VOICE FROM THE PAST

When the great leaders of banking and industry can see no further than the artificial prosperity that comes to Big Business while those who toil on farms are getting no return for their labor, then indeed we have a right to question the wisdom of our financial leaders.

George Norris, "The Farmers' Situation, a National Danger"

Norris also urged the building of government-owned power plants in rural areas. He was unusual because most Republicans believed that government should not interfere in the economy. Section 1 explains how Republican policies came under attack when the economy failed.



Instead of holding to pure Republican ideas, Norris said he "would rather be right than regular."

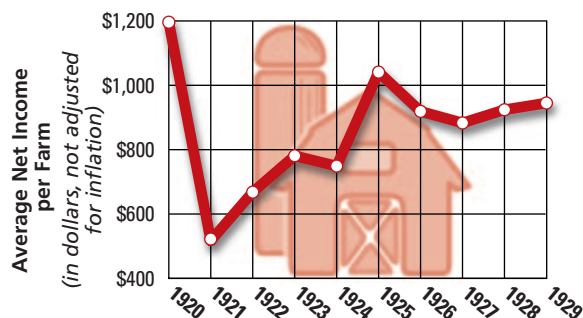
Problems in the Economy

Secretary of Commerce Herbert Hoover became the Republican candidate for president in 1928. In a speech, he stated, "We shall soon . . . be in sight of the day when poverty will be banished from this nation." But the overall prosperity of the 1920s hid the fact that some industries were in trouble. These included agriculture, railroads, textile mills, and mines.

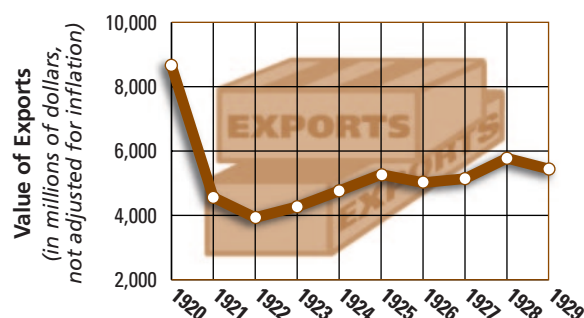
The growing wealth of the richest Americans also hid the struggle of the majority. By 1929, 71 percent of American families earned less than \$2,500 per year, the minimum needed to live decently. Some people had no jobs. African Americans in particular had high jobless rates.

During the 1920s, industries had improved efficiency and begun to produce more goods. But the income of middle-class and poor people didn't rise enough for them to purchase the extra goods. Products piled up in warehouses, causing a problem. Unless businesses sold their products, they couldn't pay for materials, salaries, equipment, or shipping.

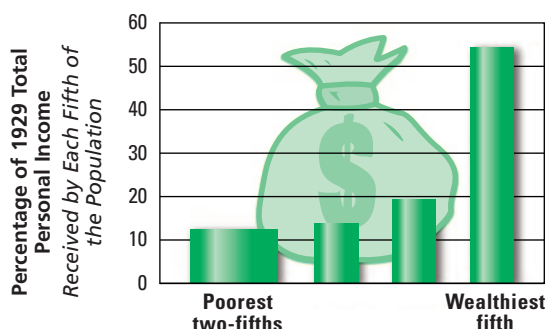
Economic Problems, 1920–1929



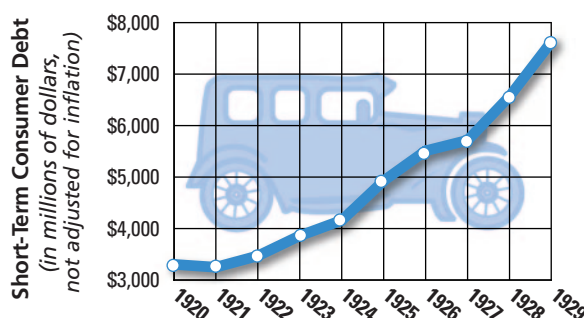
Average Net Income per Farm Notice the big drop in average farm income between 1920 and 1921. Although farm income generally rose during the decade, it did not reach the 1920 level.



Value of Exports Notice the drop between 1920 and 1921. For the next eight years, exports remained generally the same. U.S. businesses barely increased the amount they sold overseas.



Income Distribution In 1929, the wealthiest fifth of the population had more income than the other four-fifths combined. Poor and middle-class people could not afford to buy many consumer goods. This hurt business.



Short-Term Consumer Debt If people do not earn enough to buy what they want, they may take out loans or buy on credit. Short-term consumer debt skyrocketed from 1920 to 1929.

Sources: *Historical Statistics of the United States*; *A Study of Saving in the United States*

SKILLBUILDER Interpreting Graphs

- Which of these problems affected individuals, and which affected businesses?
- By how much did short-term consumer debt rise from 1920 to 1929?

Some consumers bought goods anyway—on credit. But when their debt grew higher than they could repay, they stopped buying new items. Unsold goods piled up even more.

Yet stock market prices kept climbing. Americans who could afford it rushed to buy stocks. Increasingly, investors bought on **speculation**, buying and selling stocks in the hope of making a quick profit.

Investors also began **buying on margin**—they paid a small part of a stock's price as a down payment and borrowed the rest. When they sold the stock, they repaid the loan and kept the profit. The system worked as long as prices rose. But if prices fell, borrowers couldn't repay their loans because they had to sell the stock for less than they paid for it.

Despite these problems, people believed Hoover when he predicted growing prosperity. In 1928, he won the presidency by a landslide.

Vocabulary

credit: an agreement to pay over time, instead of all at once

The Crash and the Great Depression

On September 3, 1929, the value of stocks on the New York Stock Exchange reached a high point. Then prices drifted downward. On October 23, prices dropped sharply. The next morning, people tried to sell thousands of shares before their value dropped further. Many of those who had bought on margin were forced to sell stocks to pay off their loans.

This heavy selling drove prices even lower. Because more people wanted to sell stocks than to buy them, prices had to go down to attract purchasers. But the quickly falling prices scared off buyers. Meanwhile, sellers hurried to unload their shares at the best price they could get.

On October 24, a record 12.9 million shares were traded. But the worst was yet to come. On October 29, **Black Tuesday**, investors sold 16.4 million shares of stocks at prices much lower than they had been selling for a month earlier. The plunge in stock market prices, called the **Crash of 1929**, was the first event of a terrible economic depression.

After the stock market crash, banks began to demand that people pay back the money they had borrowed to buy stocks. When people could not repay these loans, banks ran short of money. This frightening news sent people running to the banks to withdraw their savings. But banks typically do not keep enough cash on hand to pay all of their depositors at once. Unable to pay their depositors, many banks simply closed. By March 1933, about 9,000 banks had gone out of business.

Businesses felt the impact next. Many already had warehouses filled with more goods than they could sell. Because the economy's problems scared people, they stopped buying new goods. As a result, businesses sold less and less. Tens of thousands of businesses went bankrupt.

To survive, many businesses fired workers. Unemployment grew to 25 percent by 1933. As more people lost jobs, they bought fewer products—and companies laid off even more workers. Unable to pay their bills, thousands of people lost their homes, and millions went hungry.

The United States had experienced economic depressions before. But no depression caused as much suffering or lasted as long as this one—from 1929 to World War II. Therefore, it is called the **Great Depression**.

The Great Depression also affected millions of people around the world. For example, many European countries had borrowed money from U.S. banks to rebuild after World War I. When the American economy failed, so did Europe's. Hard times spread around the globe.

Background

This pattern of selling stocks and withdrawing deposits because of fear is the reason the depressions of the 1800s are also called panics.

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ReadingHistory

A. Analyzing

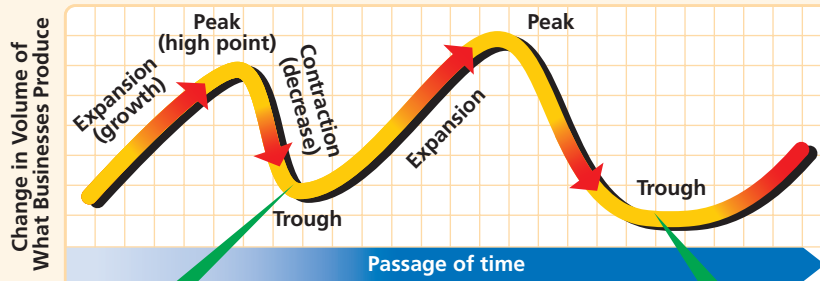
Causes Why do you think people expected Hoover to end the Depression?

Hoover Acts Conservatively

Americans looked to the president to end the hard times. Along with most Republicans, Hoover feared that government interference might hurt the economy even more. Even so, he did try to fight the Depression, but his actions often backfired. For example, he tried to balance the

Recession and Depression

Many people hoped the economy would fix itself because they believed depressions were a natural part of the business cycle (shown below). Economies go through ups and downs. The period when an economy is at its worst is a trough. There are two kinds of troughs—recessions and depressions. A depression is more severe.



Recession

- The production of a nation's goods and services goes down each month for six months.
- Business owners produce less and invest less in new equipment and facilities. They also lay off workers.
- Consumers buy fewer goods.

Depression

- The production of goods and services drops lower than in a recession.
- The period of no economic growth is longer than in a recession. Unemployment is higher.
- The slowdown may spread to other countries; international trade declines dramatically.

CONNECT TO HISTORY

1. **Evaluating** Why were the hard times of the 1930s a depression, not a recession?



See Skillbuilder Handbook, page R19.

CONNECT TO TODAY

2. **Making Inferences** How would today's world be affected differently by a depression in the United States than by one in Holland? Explain.

For more about economics . . .



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federal budget by cutting government spending and raising taxes. This pulled money out of the economy, which made the slump worse.

Some of Hoover's actions made him very unpopular. For example, he believed that federal relief—aid to the poor—would make people too dependent on government. So he would not support giving relief. In his view, one answer to the hard times was a quality he called “rugged individualism.” In 1931, Hoover said, “We cannot legislate ourselves out of a world economic depression. We can and will work ourselves out.”

Hoover also stressed the value of volunteer efforts. He encouraged churches and private charities such as the Salvation Army and the Red Cross to help needy Americans. In 1932, private giving did reach a record level—but it still wasn't enough to help everyone in need.

As unemployment, hunger, and homelessness grew, people became bitter toward the president. They blamed him for their suffering. They called empty pockets turned inside out “Hoover flags.” And they called villages of wretched huts that housed homeless people “Hoovervilles.”

Finally, Hoover softened his stand against government relief. States received some federal money to give to the needy. And in 1932, Hoover set up an agency to lend money to states, cities, and towns. This money would be used for **public works projects**—government-funded projects to build public resources such as roads and dams. These projects would create jobs. But Hoover's actions proved to be too little and too late.

ReadingHistory

B. Solving Problems

What were Hoover's solutions to the problems caused by the Depression, and did they succeed?

Hoover Loses to Roosevelt

In the summer of 1932, a dramatic event made Hoover even more unpopular. Congress had promised World War I veterans a bonus for wartime service. The bonuses were not due to be paid until the 1940s. But many of the ex-soldiers were jobless and wanted early payment. Some decided to march to Washington, D.C., to ask Congress to pass such a law. Through May and June, the **Bonus Army** of 12,000 to 15,000 veterans poured into Washington and set up camps around the city. Some of them were accompanied by their families.

The Senate, backed by Hoover, voted down a bill that called for a bonus payment. Most veterans gave up and returned home, but a few thousand remained to protest.

At the end of July, General Douglas MacArthur decided on his own to drive the Bonus Army from Washington. MacArthur's troops threw tear gas and prodded the veterans and their children with bayonets. One veteran was shot to death. The American public reacted angrily.



U.S. troops used tanks and grenades to force the Bonus Army from their camps.

ReadingHistory

C. Making Inferences Why do you think Evalyn McLean became so angry?

A VOICE FROM THE PAST

I saw in a news reel the tanks, the cavalry, and the gas-bomb throwers running those wretched Americans out of our capital. I was so raging mad I could have torn the theater down.

Evalyn Walsh McLean, *Father Struck It Rich*

Because of the attack, Americans turned against Hoover more than ever. In the 1932 presidential election, Democratic candidate Franklin Delano Roosevelt carried all but six states. Section 2 explains how Roosevelt tried to end the Depression with new federal programs.

Section 1 Assessment

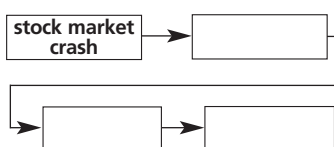
1. Terms & Names

Explain the significance of:

- Herbert Hoover
- speculation
- buying on margin
- Black Tuesday
- Crash of 1929
- Great Depression
- public works projects
- Bonus Army

2. Taking Notes

Use a diagram like the one below to show the sequence of events that led from the stock market crash to massive unemployment.



3. Main Ideas

- What weaknesses existed in the economy during the 1920s?
- What is buying on margin, and how was it a problem?
- Why did Hoover become unpopular with many Americans?

4. Critical Thinking

Contrasting How did Hoover's view of the federal government and that of most Americans differ?

THINK ABOUT

- Hoover's attitude about federal relief
- why Americans blamed Hoover for their suffering
- what Americans might have expected from Hoover

ACTIVITY OPTIONS

MATH
SPEECH

Research the changes in stock market value from September through October 1929. Create a **graph** or give a series of **radio news bulletins** about the changes.