

The Nation's Sick Economy 14.1

Economic Troubles on the Horizon

Industries in Trouble

Key industries like railroads, textiles, steel barely make profit

Mining, lumbering expanded during war; no longer in high demand

Coal especially hard-hit due to availability of new energy sources

Boom industries—automobiles, construction, consumer goods— now weak

Housing starts decline

Farmers Need a Lift

International demand for U.S. grain declines after war

— prices drop by 40% or more

Farmers boost production to sell more; prices drop further

Farm income declines; farmers default on loans; rural banks fail

Price-supports—government buys surplus crops, guarantees prices

— Coolidge vetoes price-support bill

Economic Troubles on the Horizon 14.1 {continued}

Living on Credit

Many people buy goods on credit (buy now, pay later)

Businesses give easy credit; consumers pile up large debts

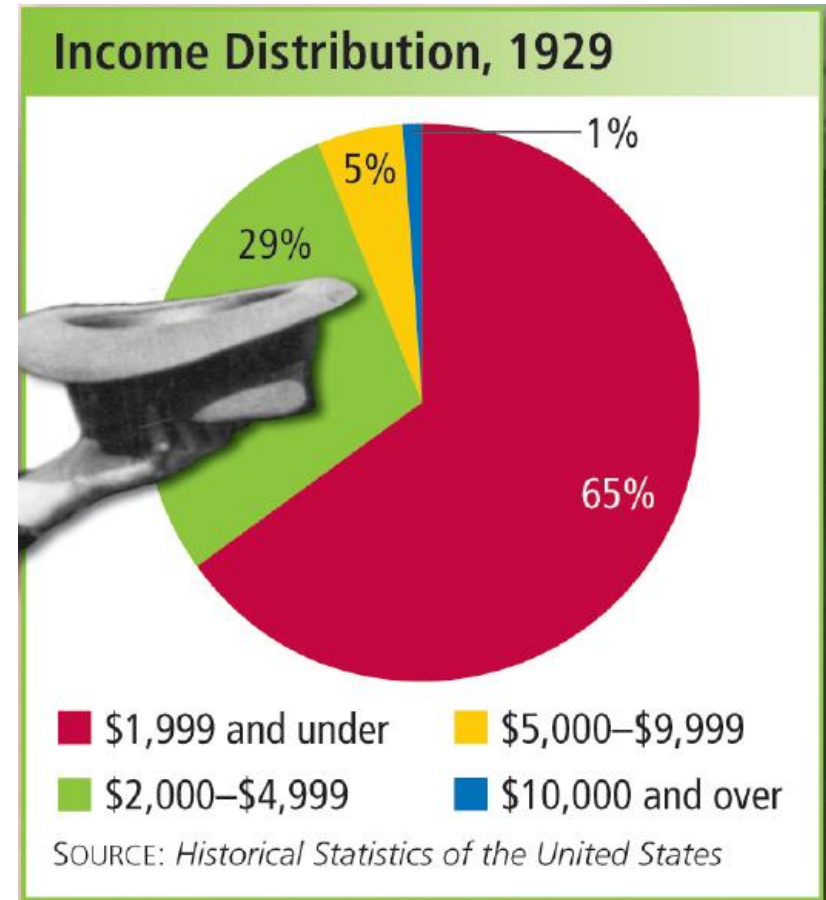
Consumers have trouble paying off debt, cut back on spending

Uneven Distribution of Income

In 1920s, rich get richer, poor get poorer

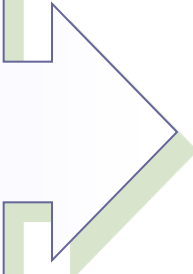
70% of families earn less than minimum for standard of living

Most cannot afford flood of products factories produce



Trouble Hidden 14.1

**In the 1928
presidential
race, the
Republican
Party was
confident.**



**The Republicans took
credit for the strong
economy.**

**Their presidential
candidate was Herbert
Hoover.**

**He believed in voluntary
cooperation between
business and labor.**

Dreams of Riches in the Stock Market

Dow Jones Industrial Average

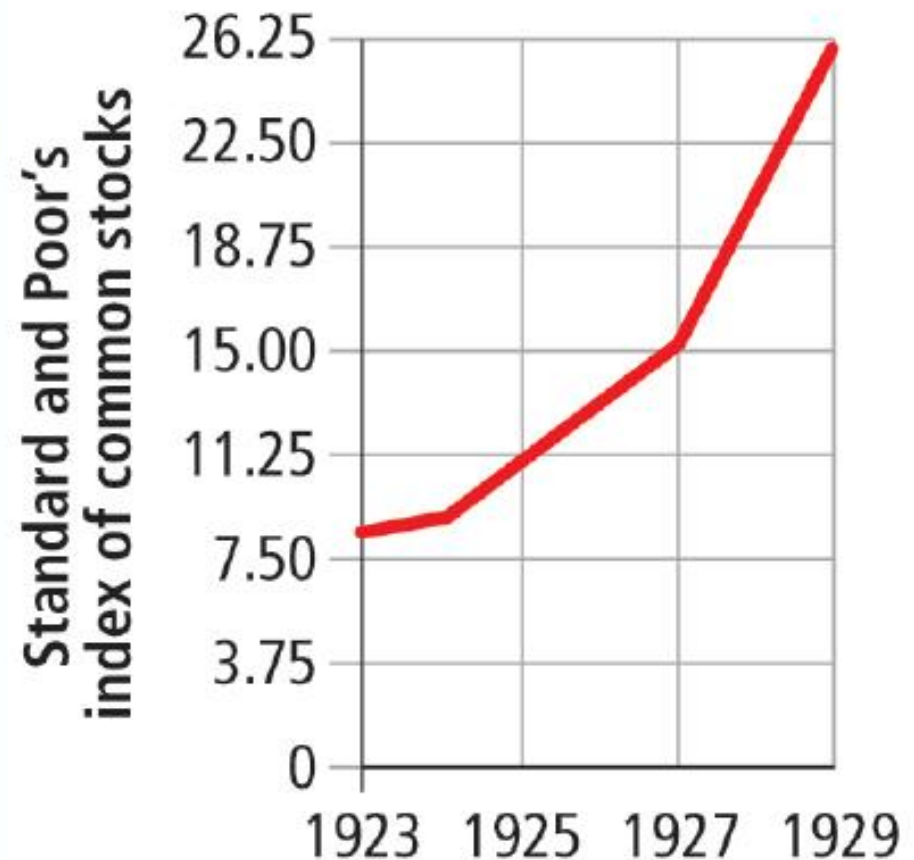
tracks state of stock market

**1920s, stock prices rise
steadily; people rush to buy
stocks, bonds**

**Many engage in speculation,
buy on chance of a quick profit**

**Buying on margin—pay small
percent of price, borrow rest**

Stock Prices, 1923–1929



SOURCE: *Historical Statistics of the United States*

On October 29th, 1929 the stock market went into a free fall as investors tried to sell at any price.

**16 million shares were sold
on “Black Tuesday.”**

**Billions of dollars were lost
in a few hours.**

**Many who bought stocks
on margin were wiped out.**

Financial Collapse 14.1

Bank and Business Failures

Great Depression—economy plummets, unemployment skyrockets
—lasts from 1929–1940

After crash, people panic, withdraw money from banks

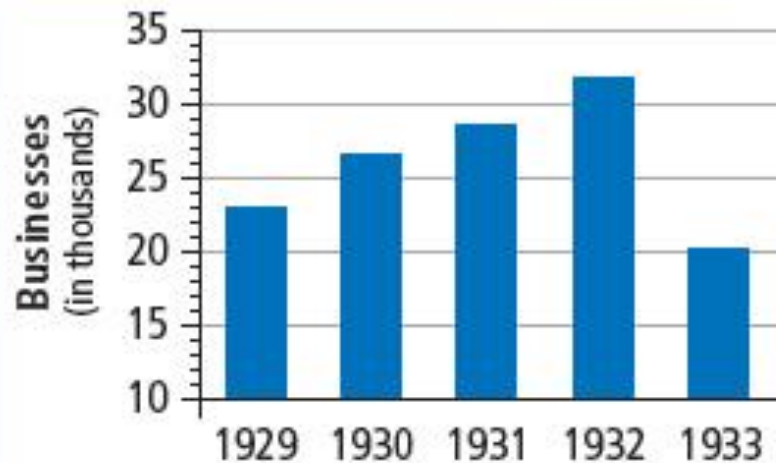
Banks that invested in stocks fail; people lose their money

1929–1932, gross national product cut nearly in half

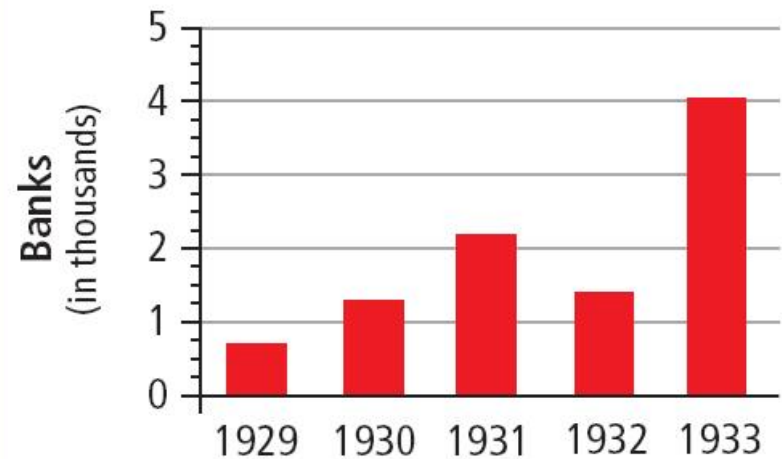
— 90,000 businesses go bankrupt

1933, 25% of workers jobless; those with jobs get cuts in hours, pay

Business Failures



Bank Failures



Congress passed the Hawley-Smoot Tariff to protect American manufacturers from foreign competition.



The strategy was a mistake. Other nations retaliated and raised tariffs as well.



The resulting drop in world trade only made the majority of American factory and farm products harder to sell.

Causes of the Great Depression

Factors leading to Great Depression:

**— tariffs, war debts, farm problems, easy credit, income disparity
Federal government keeps interest rates low, encourages borrowing**