

# Great Depression

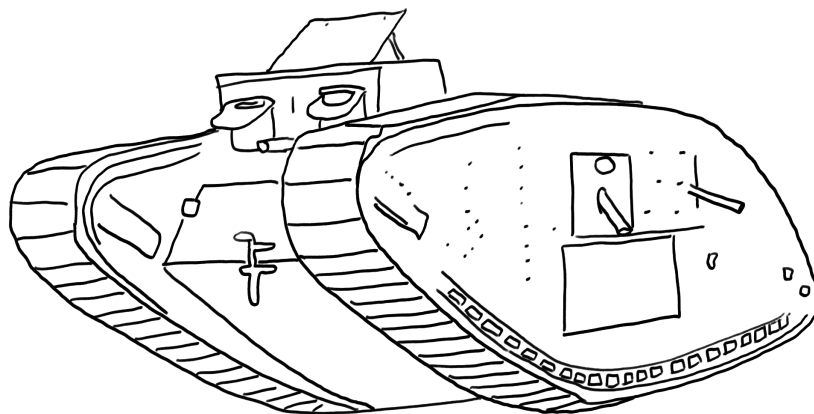
What was the Great Depression? The Great Depression was a time when things went very badly for people financially in many parts of the world. People lost their jobs, their savings, and their homes. People couldn't always get the food they needed to survive or take care of their families. But what caused something this terrible to happen?



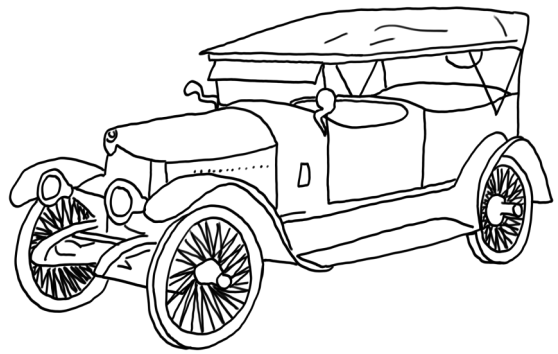
There were many different factors that contributed to the Great Depression. In a way, you can think of it as a perfect storm of financial problems. Just like when two storms in nature combine they and make a huge, more powerful one, many factors came together to cause the Great Depression. We'll start by taking a look at a few of them.

The Great Depression in the United States is considered to have started in 1929, with some problems earlier in the year and then a giant stock market crash on October 29, 1929. This was just eleven years after the nation had fought in World War I. The United States spent hundreds of billions of dollars to fight the war, and when it was over, the nation was in debt. The government raised taxes and printed money to cover the debt. As much fun as it sounds like it would be to print money, it usually isn't a good idea. More money means the money is less valuable. That causes inflation, which means prices go up, sometimes drastically.

After World War I, some nations did very well financially. Their businesses boomed, and their farms were very successful. But with so much food suddenly available, U.S. farmers didn't get as much money for their crops. So now these farmers had less money coming in but had to pay more for everything they needed. When the farmers weren't able to pay the banks for their mortgages, or had to move out of an area, the banks started to hurt financially. Several thousand banks closed in the 1920s because of the problems the farmers had.



Some parts of the economy did well during the 1920s, though. People bought more gadgets, appliances, and cars, which created a need for factories to make enough of these products to supply the demand. But unfortunately, there were problems with all this buying, too. Many people bought the items on credit, paying on an installment contract a little bit at a time. That probably sounds fine, and it works for many people and businesses even today. But because the businesses appeared to be booming, people who invested in the stock market started speculating. When you speculate, you take what you know about something and imagine what will happen next. But speculation in the stock market meant people saw that business was booming today, so surely it would do even better tomorrow. They started buying more and more stock, hoping to cash it in for a big profit.



When you buy stock, you buy a tiny part of a company. You become a stockholder. When the company does well, that tiny part is worth more money. When it does poorly, your tiny part is worth less. Imagine you bought stock for \$5. If the company has a great year, the stock might later be worth \$7. If you sell for \$7, you just made \$2. But if the company doesn't do well, the stock might fall and only be worth \$3. Now if you sell it, you have lost \$2. That's just a simple example, but you can see how what happens to the business directly affects the stockholders of the company.



While all this speculating was going on, the Federal Reserve System, which is the part of the government that handles banking, was watching. They knew this was dangerous. They raised interest rates to try to slow the speculation. But as interest rates went up, people stopped spending as much.

Can you see where this is headed? People borrowed and mortgaged and risked everything because they hoped it would pay off. Because this created a dangerous situation, the government raised interest rates. But then people stopped spending as much money. So not only did business not keep booming the way it had, it started going backward.

It started to come to a breaking point on October 24, 1929. The value of stocks dropped, so people sold their stock to get out of it whatever they could. In our example, that might be when you would sell your \$5 share for \$3. October 24 was a Thursday. Friday and Saturday seemed like everything was going to be OK. But Monday, the value of the stocks fell again. People panicked.

# Timeline

Let's take a look at what was going on in both the United States and around the world. Create a timeline that includes the following events:

- 1914 Herbert Hoover headed the Commission for Relief in Belgium
- 1917 Herbert Hoover named United States food administrator
- 1917 Conscription established in Canada under Prime Minister Robert L. Borden
- 1917 Bolsheviks (Communists) in Russia seized control
- 1918 World War I ended with the surrender of Germany (November 11)
- 1918 Typhus outbreak in Russia killed more than 3 million people
- 1918 Spanish flu pandemic killed 600,000 people in the United States and more than 20 million people around the world
- 1919-21 Irish War of Independence
- 1920 Canada joined League of Nations
- 1921 First woman member of the Canadian House of Commons, Agnes Campbell Macphail
- 1921 Herbert Hoover appointed U.S. Secretary of Commerce
- 1922 Benito Mussolini, a fascist ruler, became premier of Italy (October 30)
- 1923 Major earthquake struck Tokyo, Japan
- 1925 Diphtheria outbreak in Alaska led to a dog sled run to deliver antitoxin; this run is still commemorated each year with the Iditarod
- 1928 President Herbert Hoover elected
- 1928 China united under one government led by Chiang Kai-shek
- 1928 Alexander Fleming discovered penicillin
- 1929 Stock Market crashed (October 29)
- 1929 Joseph Stalin became dictator of the Soviet Union
- 1930 Smoot-Hawley Tariff Act (June 17)
- 1930 Work began on the Boulder Dam/Hoover Dam
- 1930 U.S. unemployment rate reached 9 percent
- 1931 Japan invaded Manchuria province of China
- 1931 Canada became independent nation under the Statute of Westminster
- 1932 President Franklin Delano Roosevelt elected
- 1933 Adolf Hitler named chancellor of Germany (January 30)
- 1933 Civilian Conservation Corps began
- 1933 Public Works Administration began
- 1933 President Franklin D. Roosevelt began the New Deal
- 1933 U.S. unemployment rate reached 25 percent
- 1933 Canadian unemployment rate reached 23 percent
- 1933 About 9,000 banks in the United States failed (by March)
- 1934 Bank of Canada established
- 1935 Dust Bowl

## Review

What does inflation mean? Prices go:



Up

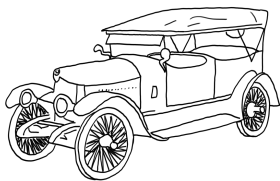


Down

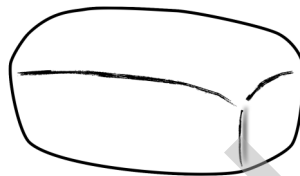


Stay the same

What did people buy more of in the 1920s that helped factories?



Cars



Bread



Savings bonds

What did the Federal Reserve System do to the interest rates because of the stock market speculating?



Raised them



Lowered them



Kept them the same

What day of the week did the stock market crash of October 29 happen?



Monday



Tuesday



Friday