



The Great Depression:

Although the Great Depression began in 1929, the roots of the trouble go back earlier, to the end of World War I. The war had been expensive for America, both in terms of money and human life. The United States spent more than \$30 billion in the war, and the country had seen thousands of its young

men killed in the brutal trench warfare.

Business and industry had become stronger during the war. Factories had been operating non-stop, turning out tanks, airplanes, rifles, and clothing for the soldiers overseas. Many farmers moved to the cities for jobs in factories. Workers were desperately needed to fill the factory jobs and employment was at an all-time high.

The need for mass production did not lessen after the war. People were eager to buy radios, refrigerators, and electric washing machines. The factories were still geared up for a high rate of production so the transition from war to peacetime industry was easy. With the demand for such goods high, people who wanted jobs had little trouble getting them. And because so many people were working there were lots of people with money to spend. The cycle of earning and spending continued.

Poverty was beginning to be eliminated. If one believed the current wisdom, it was to spend money not save it. Advertisers were assuring American families that it was foolish to tighten their belts, and that the more they spent, the more prosperous they'd be.

One sure sign of prosperity was to own things - automobiles, big houses, fancy appliances. But what about the people who still didn't have money for such products? For these people there came a new phenomenon that allowed almost anyone to be a consumer. It was called, "installment buying."

To **installment buy** you simply bought things on credit. You could buy something by paying a few dollars and then arrange to make regular payments each month until the product was paid off. One could buy an automobile, an electric washing machine, or an expensive coat.

The stock market was another way to take advantage of installment buying. For years, businesses had depended on the stock market as a way to raise

money. Instead of borrowing money from a bank, they offered stock in their companies to any investor who could come up with the cash. Each share of stock became more valuable, and dividends, another word for interest, were paid regularly to the investor, the amount depending on how successful the business had become. There was growing confidence that no business could lose money.

Investors pumped millions of dollars into stocks, driving the price of shares higher and higher. Businesses were being injected with all the money they needed, and so their stocks paid high dividends, enticing more people to "play the market." By the late 1920's, Americans were able to buy stocks the same way they were buying their automobiles - on installments. Stockbrokers, who did the actual buying and selling of stocks for their clients allowed customers to pay 10 or 15 percent down on stock. this was called "buying on margin," The broker would loan the rest to his client, receiving the balance of his money when the stock increased in value.

It became as if Americans felt they had a duty to become wealthy. Indeed, those who did not choose to risk money in the stock market were looked upon almost with disdain. Money was there to be made, it seemed, and if one followed a few basic rules, it was childishly simple.

Stock prices continued to skyrocket late in 1929, climbing to record heights each week. On the surface this seemed to indicate continued prosperity and growth, but some economists were concerned. Prices had been driven so high, and there was so much investment, that there was nowhere for things to go but downhill.

Especially troubling to experts was the fact that there were so many brokers who had overextended themselves. Record numbers of investors buying on margin had forced brokers to put up large percentages of the money to buy stocks. The stockbrokers were short of cash, so they had borrowed from banks, which were now heavily into debt.

In September, 1929 prices began to drop in the stock market. They had dropped before and always bounced back October 24, 1929, the day known as Black Thursday, this was not the case. By 11:00 a.m. that morning the plunge of stock prices was out of control. Prices of what had been good, reliable stocks were half of what they had been the day before. People began to panic and people began to sell their stocks. Soon 13 million shares of stock had changed hands.

Losses were tremendous and thousands of prosperous brokerage and bank accounts, sound and healthy a week ago, were completely wrecked in the strange debacle...Wild-eyed speculators crowded the brokerage offices, awed by the disaster which had overtaken many of them.

Bankers began to worry about how all of the selling would affect them. Some of the nations most influential bankers met that Thursday. They decided to pool \$40 million from their banks and buy stock, trying to drive the price up and calm people's fears. At first it seemed this would work. By the end of Thursday and again on Friday and Saturday the market seemed to settle down. However, by the following Monday the plunge began again and this time nothing could stop it.

By Tuesday, October 29, stocks were virtually worthless. On wall street, the center for financial activity, there was hysteria, weeping, and even reports of mass suicides among bankers, brokers, and investors. That day, more than 16 million shares of stock were sold. they were put on the market, but no one was buying at any price. Whole fortunes were lost - people who had been among America's riches investors became paupers overnight.

Like ripples in a pond, the effects of the crash of the stock market moved outward to include almost every American, investor or not. The Great Depression had begun and it seemed to be beyond anyone's control.

Appendix C:

1. Name some reasons factories were stronger during the war? After the war?
2. What attitudes did American people have after World War I?
3. What do you know about the stock market in the 1920's?
4. What would have been some advantages of investing in the stock market in the 1920's?
5. What are some similarities between the 1920's and 1997?

Adapted from:

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