

The Great Depression Begins

Section 1



MAIN IDEA

The stock market crash of 1929 revealed weaknesses in the American economy and helped trigger a spreading economic crisis.

Key Terms and People

gross national product the total value of all goods and services produced in a nation

Herbert Hoover Republican president elected in 1928

buying on margin buying stocks with loans from stockbrokers

Federal Reserve System the nation's central bank

Black Tuesday October 29, 1929—the worst day of the stock market crash

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AN APPEARANCE OF PROSPERITY

Between 1922 and 1928 business boomed, and the U.S. **gross national product** grew quickly. Gross national product is the value of goods and services produced in the nation. Unemployment was low, and many people now felt wealthy. However, farmers and certain other workers did not prosper.

Stocks are bought and sold in the stock market. A share of stock is a share of ownership in a company. As business boomed, the stock market rose sharply. The value of the stocks sold on the stock market increased by four times between 1920 and 1929. Ordinary Americans began to buy stocks.

Republican presidents Harding and Coolidge both favored business growth, and most Americans agreed with this policy. Coolidge decided not to run in the 1928 elections. His replacement, former secretary of commerce **Herbert Hoover**, won easily.

Which groups did not prosper during the 1920s?

What is a share of stock?

ECONOMIC WEAKNESSES

In spite of the boom, there were still problems in the economy. The wealthiest people saw their incomes grow sharply, but the average worker saw only small gains. Rising prices wiped out increases in wages, especially for farmers and coal miners. By 1929 70 percent of the nation's families did not earn enough for a good standard of living.

Circle the percent of people who did not earn enough to have a good standard of living in 1929.

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Many new goods were introduced in the 1920s, and people often bought them on credit. By the end of the 1920s, people had used up their credit. Spending dropped sharply, and warehouses filled with products that no one could afford to buy.

Stockbrokers loaned people money to buy stocks. This was called **buying on margin**. This was very risky. If the value of the stock dropped, people could not pay back their loans and lost the money they had put in. The **Federal Reserve System** is our nation's central bank. It took steps to reduce buying on margin but was only partly successful.

What caused spending to drop sharply at the end of the 1920s?

THE STOCK MARKET CRASHES

Rumors started that big investors were going to pull their money out of the stock market. This caused many to sell their stock. There were many sellers and not many buyers, so stock prices fell. Some leading bankers bought stocks, trying to prop up the market. On October 29, 1929, the market collapsed. This day became known as **Black Tuesday**.

Why did stock prices fall?

THE EFFECTS OF THE CRASH

Many investors were ruined. Those who had bought on margin could not pay back their loans. Many banks also lost money that they had loaned to businesses and to stockbrokers. Frightened people rushed to take their money out of the banks. Businesses were forced to lay off workers. With no income, people could not buy things, so spending and sales dropped further.

The trouble spread to Europe because America had been Europe's banker. World trade dropped, which made everything worse.

CHALLENGE ACTIVITY

Critical Thinking: Evaluate Write two paragraphs evaluating how the two weaknesses of overuse of credit and buying on margin caused the stock market crash to weaken the entire economy.

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MAIN IDEA

The Great Depression and the natural disaster known as the Dust Bowl produced economic suffering on a scale the nation had never seen before.

Key Terms and People

Great Depression the most severe economic downturn in the history of the United States

foreclosure a lender taking over ownership of a property from an owner who has not made loan payments

hobo person who travels, usually by train, in search of a job

Hooverville shantytown where homeless people lived during the Great Depression

drought a period of below average rainfall

Dust Bowl areas where severe dust storms destroyed topsoil, homes, and farm equipment

Okie a person who left the Dust Bowl to move to California

Woody Guthrie singer and songwriter who wrote songs about the Great Depression

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THE DEVELOPMENT OF THE GREAT DEPRESSION

The **Great Depression** was the worst economic downturn in the history of the United States. It was triggered by the stock market crash. However, the downturn spread through the whole economy. Many banks failed as a result of the crash. People who had money in the banks lost it. (Today, there is insurance to protect against this.) By 1933, more than \$140 billion in savings had been lost.

Farmers were already facing hard times. When people lost their jobs, there was no money for food. Food prices fell. This made farmers worse off than before. Many Americans went hungry. By 1933 food prices were about half what they had been in 1929. Farmers often borrowed money from banks. When prices fell, they could not make their loan payments.

By 1935, 750,000 farms had gone bankrupt or been foreclosed. **Foreclosure** means that a lender has taken possession of a property because the owner could not make loan payments.

Circle how much savings had been lost by 1933.

How did food prices in 1933 compare to those of 1929?

Circle how many farms had gone bankrupt or been foreclosed by 1935.

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By 1933 gross national product had dropped by 40 percent. Unemployment reached 25 percent. In some places it was even worse than that.

THE HUMAN IMPACT OF THE GREAT DEPRESSION

Millions of people were out of work. To survive, many begged. Many went from town to town in search of a job. These people were called **hoboes**. Many people lost their homes. They made shelters of whatever they could find. Sometimes they used cardboard boxes. The shantytowns they built were called **Hoovervilles**.

Americans felt deep shame at their poverty. There was a rise in suicide rates.

What were Hoovervilles?

DEVASTATION IN THE DUST BOWL

Nature helped make the Great Depression worse. There was a severe drought in the Great Plains region. A **drought** is a time when there is not enough rainfall. Before the drought, careless farming practices left the topsoil with no plants to anchor it. When storms came, they blew the soil away. Huge dust storms developed. This occurred in parts of Oklahoma, Kansas, Colorado, New Mexico, and Texas. It was called the **Dust Bowl**. Farms and machinery were destroyed. Many people had no way to earn a living and moved away. Dust Bowl farmers tried moving to California. They were called **Okies**, even though they were from other states besides Oklahoma.

Writers and artists such as John Steinbeck and **Woody Guthrie**, a folksinger, wrote about the Dust Bowl and the Okies.

How did nature make the Great Depression worse?

CHALLENGE ACTIVITY

Critical Thinking: Design The Okies took with them only what they could pack in a truck or a car. What items do you think they might take with them? Trace their route on a map.

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MAIN IDEA

Herbert Hoover came to office with a clear philosophy of government, but the events of the Great Depression overwhelmed his responses.

Key Terms and People

associative state Hoover’s term for voluntary partnership between business associations and government

Hoover Dam dam built by private business and paid for by the government

cooperative an organization owned and controlled by its members

Reconstruction Finance Corporation government program that provided money to banks and other institutions

Smoot-Hawley Tariff Act law passed in 1930 that placed tariffs on many imported goods

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HERBERT HOOVER’S PHILOSOPHY

Herbert Hoover believed that government should play as small a role as possible in the affairs of business. He believed that too much government weakened the American spirit, which he called “rugged individualism.” For this reason he would not give government money directly to the people. However, he also believed in cooperation. He believed that businesses should form voluntary associations to make the economy fairer and more efficient. He called the voluntary partnership between these associations and government the **associative state**.

Hoover used his idea to build **Hoover Dam**. This dam was paid for by the government but built by private businesses.

Circle the name of the partnership between government and business.

What was an example of Hoover’s philosophy at work?

HOOVER’S RESPONSE TO THE GREAT DEPRESSION

Hoover wanted to find ways for people to help themselves. He pushed for a program of loans to strengthen farm cooperatives. A **cooperative** is an organization that is owned and controlled by its members. Using cooperatives, farmers could buy materials at lower prices and sell their crops in ways that would raise prices for them all.

How did cooperatives help farmers?

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Hoover also talked to businesses, asking them not to lay off workers or cut wages. Faced with economic disaster, however, businesses and individuals worried first about their own affairs. Business cut wages and jobs. State and local governments stopped building projects. Consumers stopped spending. All these actions made the Great Depression worse.

Hoover had to take direct action. In 1932 he persuaded Congress to establish the **Reconstruction Finance Corporation**. This program gave government money to banks and other institutions. Hoover also supported the Federal Home Loan Bank. The aim of this program was to encourage home building. It also tried to reduce foreclosures.

One of Hoover's actions hurt rather than helped. This was the passage of the **Smoot-Hawley Tariff Act**. A tariff is a tax on imports. The Act raised these taxes, making imports more expensive for Americans and American goods cheaper than foreign goods. Europeans responded with their own tariffs. Both these moves hurt international trade severely.

THE NATION RESPONDS TO HOOVER

Hoover tried to make people feel better by saying that the Great Depression was almost over and that things were not all that bad. People stopped believing in him. They also felt that Hoover did not really care about the suffering of ordinary people. They did not see why banks should get aid and people should not.

Hoover felt that government should always have a balanced budget. Therefore, he passed a large tax increase in 1932. This was very unpopular.

In 1930 the Republican Party lost control of the House of Representatives. By the 1932 presidential election, Hoover had very little support.

CHALLENGE ACTIVITY

Critical Thinking: Develop How might you have responded to the Great Depression if you were president? Develop a plan for helping the country toward better economic times.

What actions made the Great Depression worse?

What was the Smoot-Hawley Tariff Act supposed to do?

What caused Hoover to lose support?

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MAIN IDEA
 In 1933 Franklin Delano Roosevelt became president of a suffering nation. He quickly sought to address the country's needs, with mixed results.

Key Terms and People

- Franklin Delano Roosevelt** president who took office during the Great Depression and led the country through World War II
- public works** government-funded building projects
- fireside chat** one of Roosevelt's radio addresses that sounded like he was sitting by your fireplace
- Eleanor Roosevelt** FDR's wife, who established a greater role for First Ladies
- Hundred Days** the first period of government activity in Roosevelt's presidency
- New Deal** FDR's program for ending the Great Depression
- subsidy** government payment
- Huey P. Long** Louisiana senator who said FDR was too close to banks and businesses
- Father Charles Coughlin** Catholic priest whose radio broadcasts attacked FDR
- Dr. Francis Townsend** critic who said New Deal did not do enough for older Americans

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THE ELECTION OF 1932

Franklin Delano Roosevelt, known as FDR, became president in 1932. A Democrat, he had been governor of New York. He convinced people that he understood their hard times. He promised relief for the poor and more **public works** programs. These were building projects paid for by the government. He won by a landslide and the Democrats won control of Congress.

What helped convince people that FDR understood their suffering?

A POLITICAL PARTNERSHIP

Roosevelt talked to the country by radio with his **fireside chats**. He spoke as though he was sitting in people's living rooms. FDR believed that government should solve economic and social problems.

FDR's wife, **Eleanor Roosevelt**, was her husband's "eyes and ears." She became a powerful political force. One social issue she worked on was the campaign to stop the lynching of African Americans. Her actions helped to make the role of First Lady more important.

What did FDR believe about government?

How did Eleanor Roosevelt help her husband?

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ROOSEVELT TAKES ACTION

Roosevelt's first months in office were called the **Hundred Days**. He began many of the programs that made up the **New Deal**. He first rescued the banking system. He pushed through Congress the Emergency Banking Act, which made banks report to government.

FDR also created the Civilian Conservation Corps. In the CCC people were paid to work on conservation projects. The Agricultural Adjustment Act gave farmers a **subsidy**, a payment to grow fewer crops. The National Industrial Recovery Act called for businesses to act together to set wages and production levels. The Securities and Exchange Commission was founded to oversee the stock markets.

Circle the laws and programs that were part of the New Deal.

TROUBLE FOR THE NEW DEAL

Some people were against the New Deal because they thought it did not go far enough. These included Louisiana Senator **Huey P. Long** and Catholic priest **Father Charles Coughlin**, who criticized FDR on the radio. **Dr. Francis Townsend** thought the New Deal did not do enough for old people. He thought they should receive pensions, which were payments after retirement. On the other hand, the American Liberty League thought the New Deal was anti-business and had gone too far.

The Supreme Court decided that many New Deal programs were unconstitutional because they changed the balance of power between the president, Congress, and courts. The Court stopped much of the New Deal.

Underline the names of the people and organizations that were against the New Deal.

CHALLENGE ACTIVITY

Critical Thinking: Evaluate Do you think the New Deal went far enough to help people, or too far? Write two paragraphs about your position.

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**MAIN IDEA**

A new wave of government initiatives starting in 1935 resulted in some strong successes and stunning defeats for President Roosevelt.

Key Terms and People

Second New Deal new laws passed as part of the New Deal

Social Security government program providing a guaranteed income to older Americans

John L. Lewis head of the United Mine Workers who helped found the CIO

CIO Committee for Industrial Organization—an association of unions of unskilled workers

sit-down strike strike in which the strikers stayed at their jobs but stopped working

deficit economic condition when government spends more than it takes in

John Maynard Keynes British economist who said that limited deficit spending could help the economy

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THE SECOND HUNDRED DAYS

In early 1935 the courts were finding that key parts of New Deal programs were unconstitutional. The economy was not getting better. With the help of a Democratic majority in Congress, FDR began many new programs, sometimes called the **Second New Deal**. It included new laws increasing government control of the banking industry and higher taxes for wealthy Americans. New relief programs began, but instead of paying Americans directly, people were required to work. The Works Progress Administration employed millions of people in projects such as building roads, subways, and airports. The WPA also created work for artists and writers.

An important part of the Second New Deal was the creation of **Social Security**. This program guaranteed an income for many Americans age 65 or older. It also included unemployment insurance.

Circle the new laws and programs that were part of the Second New Deal.

How were the relief plans of the Second New Deal different from those of the New Deal?

REVIVING ORGANIZED LABOR

The Wagner Act, or National Labor Relations Act, outlawed many antilabor practices. It established the National Labor Relations Board, which could conduct

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voting in workplaces to see if employees wanted unions. It could require businesses to accept the results. Millions of Americans joined unions.

John L. Lewis, head of the United Mine Workers, helped found the **CIO**, Committee for Industrial Organization. The CIO organized the unions of unskilled workers. The following year, the United Auto Workers, part of the CIO, launched a new kind of strike. For this **sit-down strike**, workers sat at their workplaces and stopped working. They stayed there day and night. After six weeks, management recognized the union.

What kind of unions formed the organization called the CIO?

THE ELECTION OF 1936

In 1936 Roosevelt won a second term in a landslide. He had halved unemployment and incomes were up sharply. His New Deal programs brought hope to millions. He had helped rural Americans by bringing electricity to remote areas. In the past, African Americans had supported the Republicans, the party of Lincoln. In this election, many African Americans voters chose Roosevelt and the Democrats.

What had FDR accomplished by the 1936 election?

A TROUBLED YEAR

The courts had struck down many New Deal programs. In 1937 Congress spent most of its time on FDR's proposal to reorganize the courts. He wanted to have presidents appoint more Supreme Court justices. The Democrats were divided, and he lost the battle.

Later that year the stock market dropped and unemployment rose. FDR was worried about more spending because of the federal budget **deficit**. A deficit occurs when a government spends more money than it takes in. However, FDR followed the thinking of economist **John Maynard Keynes**. Keynes argued that deficit spending could help the economy. In the summer of 1938 the economy began to improve.

Why do you think FDR's proposal to reorganize the courts caused so much argument?

CHALLENGE ACTIVITY

Critical Thinking: Design Develop a New Deal for today. Include programs for dealing with unemployment, education, the environment, health care, and poverty.

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MAIN IDEA
 The Great Depression and the New Deal had a deep impact on American culture during the 1930s.

Key Terms and People

- Frances Perkins** Secretary of Labor; first woman to head an executive department
- Black Cabinet** group of black government officials
- Mary McLeod Bethune** director of Negro Affairs in the National Youth Administration
- Dorothea Lange** photographer who chronicled the Great Depression
- swing** a highly orchestrated type of jazz

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NEW ROLES FOR WOMEN AND AFRICAN AMERICANS

Women’s roles in public life expanded under the New Deal. The example was set by Eleanor Roosevelt, who played a large role in FDR’s administration. So did other women. **Frances Perkins** served as FDR’s Secretary of Labor. She was the first woman to head an executive department. She helped form many New Deal policies. However, women were still paid less than men. Many people thought women should not take jobs at all, as this might put men out of work.

African Americans also had new roles under the New Deal. FDR appointed African Americans to key positions. Included was the first black federal judge, William Hastie. These officials met as a group, nicknamed the **Black Cabinet**, and helped advise FDR. They met under the leadership of **Mary McLeod Bethune**. She was the director of Negro Affairs in the National Youth Administration.

New Deal programs, however, did not challenge racial discrimination. Roosevelt thought that to do so would make enemies of southern Democrats. Then these Democrats might block other programs.

What problems did women workers face during the Great Depression and New Deal?

What was the Black Cabinet?

Did the New Deal programs fight racial discrimination?

TELLING THE STORY OF THE DEPRESSION

During the Great Depression artists took a new interest in social problems and activism. John Steinbeck wrote *The Grapes of Wrath*. This novel was

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about a family of Okies leaving the Dust Bowl for California. Woody Guthrie wrote folk songs about the lives of ordinary people.

Photographer **Dorothea Lange** took pictures of jobless people in San Francisco. However, her most famous work included pictures of the rural poor. Starting in 1935 Lange worked for the Farm Security Administration. In 1937 the federal government began to give assistance to tenant farmers and sharecroppers. This was due in part to the photographs that raised people's awareness.

Other artists of the Great Depression included writer James Agee and photographer Walker Evans.

How did Dorothea Lange help the rural poor?

POPULAR ENTERTAINMENT IN THE 1930S

In the 1930s seeing a movie cost an average of 25 cents. Millions of Americans went to the movies every week. Some movies dealt with the Great Depression. Most people, however, went to the movies to escape. Charlie Chaplin and the Marx Brothers made world-renowned comedies. Elegant musicals were performed by stars like Fred Astaire and Ginger Rogers. Frank Capra directed many films about the common man.

Radio was very popular. Most American households had a radio. People listened to FDR's fireside chats, and also news, entertainment, and religious programming. There were also comedy and action shows. In 1938 the story *The War of the Worlds* was broadcast. It was so realistic that some listeners were convinced that spaceships from Mars were attacking Earth.

People also listened to music. Jazz became more popular. A new kind of highly orchestrated jazz came to be. It was called **swing**.

Circle how much movies cost during the Great Depression.

CHALLENGE ACTIVITY

Critical Thinking: Elaborate Watch a typical Fred Astaire movie from the 1930s. Write three paragraphs contrasting the world shown in the movie with the real world of the Great Depression.

The New Deal**Section 4****MAIN IDEA**

The New Deal had mixed success in rescuing the economy, but it fundamentally changed Americans' relationship with their government.

Key Terms and People

Marian Anderson famous black singer who encountered racial discrimination

minimum wage the lowest wage an employer can legally pay a worker

incumbent the person currently holding a position

Section Summary**THE IMPACT OF THE NEW DEAL**

FDR promised the nation “relief, recovery, and reform.” Relief programs put billions of dollars into Americans’ pockets. New Deal programs such as Social Security and unemployment insurance have lasted until today.

As for recovery of the economy, however, the New Deal was less successful. Joblessness fell from 13 million in 1933 to 9 million by 1936. Wages and production moved up to their 1929 levels. However, these gains were wiped out in 1937 and 1938. By 1939, 10 million workers were still unemployed.

No one can say for sure why FDR’s methods did not work as well as had been hoped. Some historians think Roosevelt’s policies undermined business confidence and actually slowed the recovery. Other historians believe that the New Deal did not go far enough. They say that FDR should have spent more money and run a bigger deficit.

New Deal reforms, however, have been successful and lasted through the years. The Federal Deposit Insurance Corporation restored public confidence in the banking system and still insures bank accounts. The Securities and Exchange Commission still oversees the stock markets. Today’s investors continue to rely on it.

Finally, the New Deal left a very large physical legacy. The WPA has left us thousands of hospitals, schools, dams, bridges, roads, and public buildings, as well as murals and sculptures.

What did FDR promise the nation?

What two opposing opinions do historians hold about the New Deal?

What two New Deal reforms do we still rely on today?

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The New Deal changed the relationship between the American people and their government. The new relationship was based on the belief that government had a role to play in helping both businesses and individuals gain a greater level of economic security. To play this role, however, government had to get bigger, and as it did, Americans came to look regularly to the government for help.

How did the New Deal change the relationship between business and government?

LIMITS OF THE NEW DEAL

Five million jobless people were not helped by the New Deal. The relief jobs themselves were only temporary, and they did not pay well. Federal programs often clashed with state programs. This resulted in different amounts of relief in different states. The New Deal also allowed racial discrimination. Although FDR appointed members of minority groups to office, he did not push for racial justice. He was afraid of losing the support of lawmakers if he did. When Eleanor Roosevelt arranged for the great African American singer **Marian Anderson** to hold a concert in Washington, D.C., it was a daring action.

Why were work-relief jobs not as good as regular jobs?

THE END OF THE NEW DEAL

By 1937 FDR lost much support in his court-reorganization fight. Then came the economic downturn of 1937–1938. Many in Congress fought his policies at every step. However, FDR worked hard to have Congress pass a **minimum wage** and set the maximum hours for a work week. FDR had less success in the 1938 congressional elections. In each case, Roosevelt's candidate lost and the **incumbent**, the one presently in office, won. The American public began to turn their attention to the growing threat of war in Europe. By 1938 the New Deal era was over.

CHALLENGE ACTIVITY

Critical Thinking: Evaluate If you had lived during those times, would you have favored the New Deal? Write three paragraphs explaining your position.