The Depression.

Notes from "Mastering Moderna World History" by Norman Lowe, Second edition.

- **Why was there a Great Boom of the 1920's:**

1. **Great industrial expansion the late 19th century.**
   a) USA had overtaken both GB and Germany.
   b) World War One had meant an enormous boost for the industry.
2. **The Policies of the Republican Party helped in short term.**
   a) Laissez-faire.
   b) Fordney-McCumber Tariffs of 1922.
      i. Raised the import duties on goods.
      ii. Protected the home market.
   c) Income tax cuts in 1926 and 1928.
3. **Profits and wages increased in the economy.**
   a) Wages up 8 % 1923 - 1929.
   b) Consumer luxuries encouraged by advertising and radio shows.
   c) Credit system. Loans and down payment for consumer goods.
4. **Motorcar industry stimulated expansion into allied industries.**
      i. Roadbuilding
      ii. Petrol
      iii. Tourism
      iv. Tyres etc

- <u>**Problems behind the prosperity:**</u>

1. **Farmers were not sharing in the general prosperity.**
   a) Done well during the war. During the 20's prices on farm produce fell.
   b) Wages often less than half for farm workers in the mid west and south compared to the industrial workers of the north.,
   c) The price fall was caused by overproduction and flooding of the home market.
   d) The republican policies of Laissez-faire and Tariffs worsened the situation.
2. **The African-american population was left out of the prosperity.**
   a) White farmers in the south laid off blacks first.
   b) About 750 000 moved up north in search of better lives.
      i. Worst slum and worst jobs with the lowest pay.
   c) The Ku Klux Klan had a revival. About 5 million active members in 1924.
3. **Increase in gang violence and crime.**
   a) Prohibition 1919 - 1933 caused more problems than it solved.
   b) Gangsters and gangs protecting bootlegging and speakeasies.
      i. Al Capone in Chicago the most notorious.
4. **Industry became increasingly monopolised by large trusts and super-corporations.**
   a) In 1929 the wealthiest 5 % of the corporations tock over 84% of the total corporation income.
   b) This also kept wages lower and prices higher than necessary.
   c) laissez-faire did nothing to stop this. Au contraire!

- **<u>The Great Depression, list of event.</u>**

1. **Up until september 1929 prices on shares had risen. Making people buying more and more stocks.**
2. **In September prices begun to stop up, and by the end of the month prices fell a bit.**
3. **Everybody was getting nervous.**
4. **So when prices fell on 24 oct. Black Thursday. Panic spread. 13 million shares dumped.**
5. **On the Black Tuesday 29 October 1929 Wall Street Crashed.**
   a) This set an avalange moving:
      i. Share prices dropped.
      ii. People rush to the banks to collect their savings.
      iii. Banks having no cash due to loans and credits.
      iv. Banks tries to collect loans from people that lost their money on the Stock Market.
      v. People loosing house and property.
      vi. Banks going bankruptcy.
   b) It also affected unemployment:
      i. Share prices dropped.
      ii. Companies loose money.
      iii. Unemployment up.
      iv. Consumption down.
      v. Demand down.
      vi. Companies loosing more money.
      vii. Companies into bankruptcy.
      viii. Unemployment sky rockets.

- <u>**What caused the Great Depression?**</u>

  1. **High profits + Mechanisation = Overproduction = Home markets flooded.**
     a) Unsold stocks of goods build up.
     b) Manufacturers produced less.
  2. **Which led to a rise in unemployment.**
     a) Since no unemployment benefits this affects consumption negative.
     b) More companies have to close due to weak demand.
  3. **Maldistribution of income.**
     a) 1923 - 1929 wages up 8 %
     b) 1923 - 1929 industrial profits up 72 %
        i. Not enough buyers of the overproduction, sustained a while by the credit system.
     c) Super-corporations not prepared to reduce prices or increase wages.
     d) Greed from the companies, since millions didn't have a car etc because they couldn't afford it.
     e) If income had been spread to more, consumption would have risen and demand would have increased.
  4. **Exports begun to fall.**
     a) Tariffs made the European market to retaliate with tariffs against American products.
     b) Without profits in the European industry that industry can't help the European countries pay their war depts to the US. So when problems hit the European companies, it will come back and bite the american economy in the neck.

5. **Wild Speculation on the market.**

   There are two ways to make money on the stock market:

   a) By dividend. Money actually made by the company, part of the profit.
   b) By speculation in future prices. (Buy cheap, sell expensive).
      i. As profits increased in the industry in the 20's, more wanted to invest in stocks.
      ii. As demand of stock rose, the prices went up.
      iii. As prices wentt up, more could gain from the rise of prices and wanted to buy stocks.
      iv. Leading to a rise in demand. Leading to prices going up. Do you see where this is going?
   c) In the 20's people were speculating.
      i. The value of an average share had gone up from 9 USD 1924 to 26 USD 1926.
      ii. A share in the Radio Corporation of America that cost 85 USD in early 1928, had risen to 505 USD / share in sept 1929.
   d) Fast profits.
      i. Savings spent on shares.
      ii. Borrowed money to spend it on shares.
      iii. Banks speculated using their cash deposit.
   e) So when the first signs started to show up of sales down in the company the fall will come.
      i. When prices suddenly starts falling, demand will take a dive and supply will increase, causing bigger desire to sell, causing an bigger increase in supply. Price plumbers down.
      ii. This becomes a self-fulfilling expectation.

- **How did the Depression affect people?**

1. **It ruined millions of investors.**
   a) Their role in the economy is to supply the industry with risk capital.
2. **Banks went bankruptcy.** In 1929 25 000 banks, in 1933 15 000 banks.
   a) People lost their life savings.
   b) People lost their houses, because the banks wanted to get their money back, farmers couldn't pay, tried to sell their farms, but nobody would buy it.
      i. Bank stuck with useless property.
      ii. Families lost their homes.
      iii. "Okies" "Hoovertowns"
3. **Men laid of and factories closed.**
   a) 14 million unemployed
   b) 25 % of the working force unemployed
   c) 1 / 8 Farmers lost their property.
   d) Bread Ques, Soup Kitchen, Near Starvation for many.
   e) "The great American Dream became a Nightmare".
4. **It spread over the world.**
   a) Affected the entire world because of the global economy.
   b) Especially Germany is affected, since the loans it got from the US.
      i. US demanded back its short term loans
      ii. And perhaps worst, they gave no new credits.

- **How did president Hoover try to solve the problem?**

1. **At first nothing.** Denied the whole thing, said it was temporary, looked for good signs rather than realizing the seriousness of the situation.
2. Then he tried to **encourage employers not to reduce wages and lay off workers by state loans**.
3. In 1931 he put a **one-year moratorium on the war debts** so the european countries could import US goods. Too late.
4. He was **against relief payment to individuals,** self-reliance was the answer he gave to hungry starving families.