

Great Depression Fact Sheet

After the end of WW I during the mid and late 1920's, much of the United States experienced an euphoric sense of prosperity and optimism known as the Roaring Twenties. For several years the stock market had been on fire with activity as prices soared, and people began over speculating on stocks. However, these boom years that appeared to create fortunes concealed serious weaknesses in the American economic system.

Buying a stock is buying part ownership in a company. However, part of the value of the stock is based on what purchasers **think** will happen in the future. When investors buy stock, they are hoping that the value of the company will increase. If more people purchase the same stock, it tends to increase the value and the price. Investors are taking a risk, speculating on future performance, and planning to sell in a few months or a year to make a sizeable profit. During the 1920s, many people bought on margin, a process whereby the buyer pays as little as 10% of the purchase price of the stock and borrows the rest from a broker (a person who buys and sells stock or bonds for the investor). Even bankers would sometimes divert their customers' money (savings accounts) to purchase stocks on margin in risky market speculation rather than investing in industrial expansion and development. This system makes large profits for investors only as long as prices keep increasing.

During this time, bankers, corporate leaders, and financiers sometimes formed secret investment "pools" to buy stocks in glamorous companies such as American Telephone and Telegraph (AT & T). They then sent bank salesmen out to encourage clients to purchase stocks on margin in the same company. Sometimes bogus stories were planted in the press hinting at "hot stocks" to buy. This practice was called "insider trading" and was legal allowing for gross manipulation of the market. After a relatively short period, members of the pool quietly sold their holdings at inflated rates. When the prices began to settle down to a more realistic level reflecting the true earning power and potential of a company, smaller investors who were not a part of the pool were left holding the bag and owing large sums of money (teachers might talk about Martha Stewart at this point).

Ordinary salaried workers and well-known celebrities poured money into the market in the belief that it would only continue to go up making them rich in a relatively short time. Unfortunately, there were few safeguards protecting the unwary investor. The Federal Reserve System did not have the powers it does today, the federal government had a very limited role in the economy, and banks were largely unregulated. The government took a largely hands off position with the economy failing to prevent the collapse of the banking system. Financial institutions across the country suddenly closed wiping out the savings of depositors. More than 11,000 of 24,000 banks failed. When the market crashed, loans were called in and the house of cards began to give way. An economy built on a superficial system of credit collapsed resulting in lay offs, evictions, salary cut backs, and reduction of hours. One fourth of U.S. workers were without jobs and millions more worked at subsistence levels. Hunger and homelessness were prevalent as desperate men, women, and children crossed the country seeking jobs, food, and shelter.

In addition to the collapse of the banking system, the agricultural sector faced a crisis. Drought and decades of poor farming practices had turned once fertile plains in the Midwest into millions of acres of billowing dust. Bank foreclosures were common as prices in farm markets eroded and incomes fell to record low levels. High tariffs strangled international trade, and a number of large and small businesses failed. As the deflationary spiral continued, the value of money plummeted.

By late winter 1933, the nation had endured more than three years of economic depression. Bank closures and the ensuing lack of hard currency led people to revert back to the old colonial bartering system. Men and women who had for generations worked and mined the land depending only upon themselves and their extended families were thrown into grinding, hopeless poverty. Many felt as though they personally were failures. Others saw democracy and capitalism as failed systems needing either massive overhaul or revolutionary change.

The Great Depression would cause Americans to question the historic belief that individuals and families were responsible for their own success and care. With so many unemployed and evicted from their homes, attitudes about the role of government in the economic life of the nation were shifting. Citizens began to ask what responsibility society shared for the welfare of each individual. ([Perspectives A Multicultural Portrait of the Great Depression](#), listed under books for children, is a detailed and child friendly explanation of economics of the period).

The nation and the culture were both rocked and energized by the social, political, and economic crisis of the decade. Out of this turmoil came the voice of the newly elected President, Franklin Roosevelt, who inspired hope with a new attitude about the role of government and the citizen. Millions were put to work in federal programs as part of a policy that came to be known as the New Deal. Legislation was passed to safeguard banking accounts (FDIC), regulate banking practices, reform the stock market, protect workers' rights, and provide some security for retired and elderly workers (Social Security).

Some of these programs of the New Deal were temporary and had limited effects on the economic plight of the people. Others have become fixtures in the modern United States economy. Today, most Americans expect the government to play an active role in the economic, social and political welfare of its citizens, though there is a continuous debate about the proper extent and nature of that role. This is the legacy of the Great Depression and the New Deal.