

◆ *What is an economic depression?*

In a capitalist society, the economy rises and falls over periods of time. Prices tend to go up gradually as time passes; however, prices sometimes take a fall. When prices start falling, people start selling their stocks. The companies who are losing shareholders then raise prices. Raising the prices causes inflation. People now have to pay more for a product than before. If prices inflate too much, then people aren't able to buy them at all. When this happens, prices deflate. When prices decline it is called an economic recession. A recession is part of the business cycle. The business cycle is a natural rise and fall in the economy. The economy goes from "boom" to "bust."

◆ **What caused the Great Depression?**

The stock market crashed in 1929, which caused the great depression. Just a few weeks before the crash, the stock market reached an all time high. When the stock market reached that high, the Federal Reserve realized they had to raise interest rates. The stock market went from a boom to an immediate bust.

Stocks are based on estimates of a company's future earnings. In the 1920s, people became too optimistic about their businesses. They bought "on margin." Buying on margin is something like buying on credit. The Federal Reserve also set low interest rates and low reserve requirements. During the 1920s, the money supply rose 60%.

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The Great Depression



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◆ What happened?

After the stock market fell, people got scared. They withdrew their money from the banks. When people place money in banks, they invest it in the bank. The bank uses that money and loans it out to other people. The bank charges interest for loaning out your money. They give you a small amount of the interest and keep the rest for themselves. When people went to the banks to get their money, the banks did not have their money. It was all loaned out. This caused many banks to go bankrupt. As a result of the stock market crash, thousands of people lost their jobs. People no longer had money to spend to buy anything. The stock market continued to fall, and people continued to lose their jobs. It got to a point where a large portion of the population could not afford to even "put food on the table."



Above: Men standing in a "soup line."

◆ What was the social impact?

The Great Depression had physical and psychological impact on the nation. Many people feared losing their jobs. Unemployment caused anxiety. Mental depression struck. People contemplated and attempted suicide. Thousands of people became homeless. Many went hungry. Children suffered from malnutrition. Inadequate medical care caused a rise in many childhood diseases. People grew their own food to eat. They ate berries and other wild plants. They sold apples and pencils on the streets in the cities. Landowners planted "Relief gardens". They used the gardens for food and barter.



Above: A Hooverville

Living conditions degraded. Many families crowded into homes together. Some went homeless. They moved into shantytowns or hoovervilles. Divorce declined. Couples couldn't afford to live separately. Many postponed their wedding arrangements until the depression would end. People were too ashamed to ask each other for help. Family values rose as they depended on one

another to survive. Women took men's jobs. Unemployed men felt like failures when they seen women taking their jobs. Women continued to work. They worked the usual "women's job" of nursing, secretarial work, etc. Women who did do "men's work" were paid significantly less.

◆ What did the government do?

The government passed many policies to try to help pull the nation out of the depression. All were unsuccessful. Many criticized President Herbert Hoover during his administration. They renamed the shantytowns to Hoovervilles due to his lack of support. Hoover did try a lot of policies, they just didn't work. Once President Roosevelt got into office, his New Deal policies helped somewhat. His alphabet soup agencies provided jobs for the unemployed and helped improve the nations standard. No drastic change came from government policies. It wasn't until World War II until the nation would be pulled out of the economic crisis and began to boom again.



Above: President Herbert Hoover (left) and President Franklin Roosevelt (right)