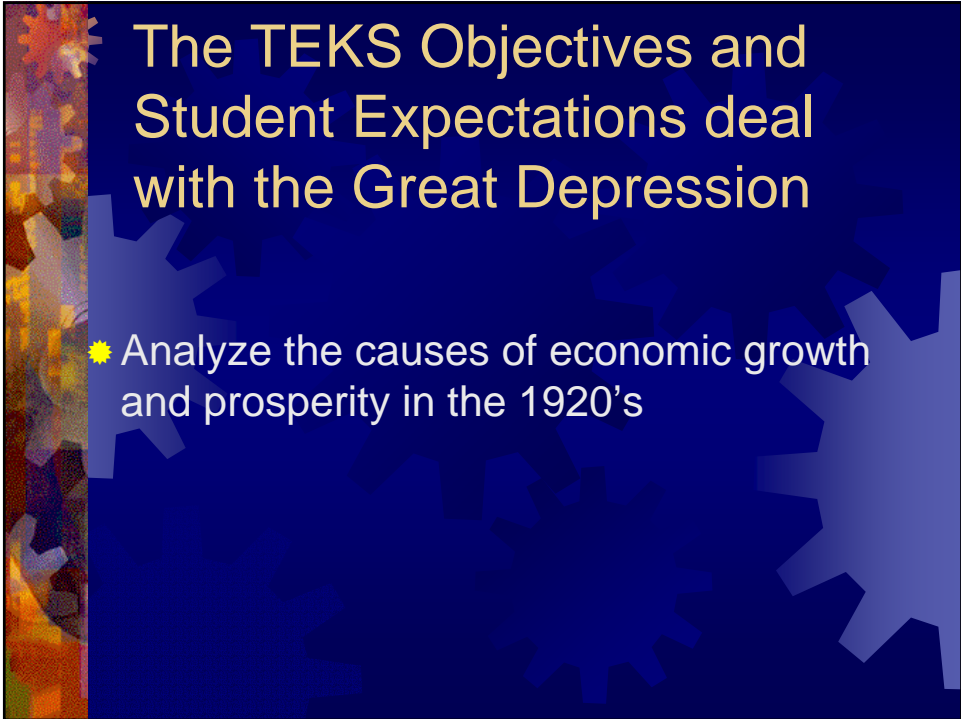




## Economic Issues of the Great Depression

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## The TEKS Objectives and Student Expectations deal with the Great Depression

- Analyze the causes of economic growth and prosperity in the 1920's



## Key Issues related to Growth in the 1920's

- Installment Loans
- The Multiplier Effect
- Margin Buying



## Installment Loans

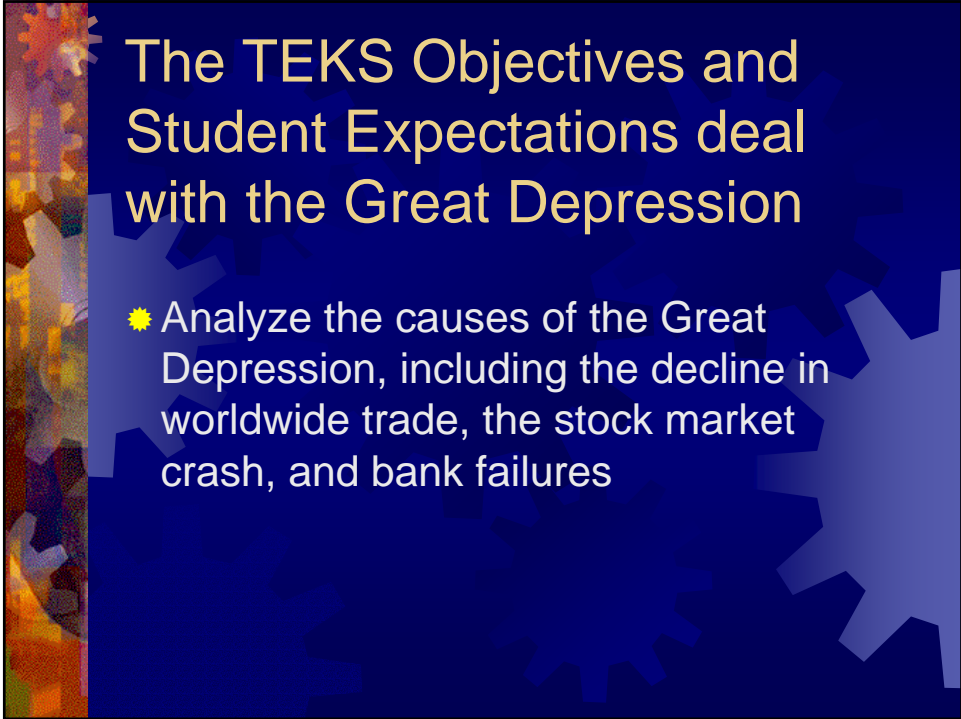
- In the 1920's, banks began to lend money for extended periods of time
- The ability to spread out payments was particularly important in the construction and automotive industries
- Sales of houses and cars rose rapidly in the early to mid 1920's

## Multiplier Effect

- Sales of autos rise (stand if you sell cars)
- More cars are produced (autoworker)
- Factories need more steel (steelworkers)
- Factories need more machinery (machinery factory workers)
- Sales of houses rise (construction worker)
- People need to furnish their homes (furniture worker)
- People with new jobs need clothing (sell clothing)
- People buy more groceries (workers in grocery stores)
- People eat in more restaurants (waiters, etc.)

## Margin Buying

- Much of the stock purchased in the 1920's was margin buying
- Investors bought stock with money borrowed from their brokers
- The brokers borrowed from banks
- When investors were forced to default it also impacted brokers and banks



## The TEKS Objectives and Student Expectations deal with the Great Depression

- ☀ Analyze the causes of the Great Depression, including the decline in worldwide trade, the stock market crash, and bank failures



## Framework for Analysis

- ☀  $C + I + G + (X - M) = \text{GDP}$

## Stock Market Crash

- ✦ October 29, 1929 “Black Tuesday”
- ✦ The Stock Market Crash ended the “get rich quick” dreams of millions.
- ✦ In one week, over \$30 billion in stock market value evaporated
- ✦ The loss of wealth caused C to decrease
- ✦ Loss of firm capital caused I to decrease

## Multiplier Effects

- ✦ Declining sales resulted in wage cuts and layoffs which led to further decreases in C
- ✦ Declining firm confidence resulted in further decreases in I
- ✦ Consumption and Investment have taken multiple hits

## Fiscal Policy

- The existing belief in balanced budgets continued during the early years of the Great Depression
- In an attempt to offset declining tax revenues  $G$  was reduced
- The Hoover Administration also passed one of the biggest tax increases ( $T$ ) in history
- Rising taxes lead to decreases in  $C$

## Monetary Policy

- I will leave the detailed discussion for tomorrow
- Decreases in Money Supply and Bank Failures had a negative impact on  $C$  and  $I$

## Money in Circulation

U.S. Bureau of the Census,  
*Historical Statistics of the United States, 1960*

YEAR	Money in Circulation
1929	\$26.2
1930	\$25.1
1931	\$23.5
1932	\$20.2
1933	\$19.2

## Number of U.S. Bank Closings

U.S. Bureau of the Census,  
*Historical Statistics of the United States, 1960*


Year	Number of Bank Closings
1928	499
1929	659
1930	1352
1931	2294
1932	1456
1933	4004

## Net Exports

- In June of 1930 the Smoot-Hawley tariffs were passed
- The initial intent was to protect U.S. farmers, but once the process began many industries were also given protection
- Retaliation by other nations resulted in huge decreases in imports and exports
- Net Exports fell sharply

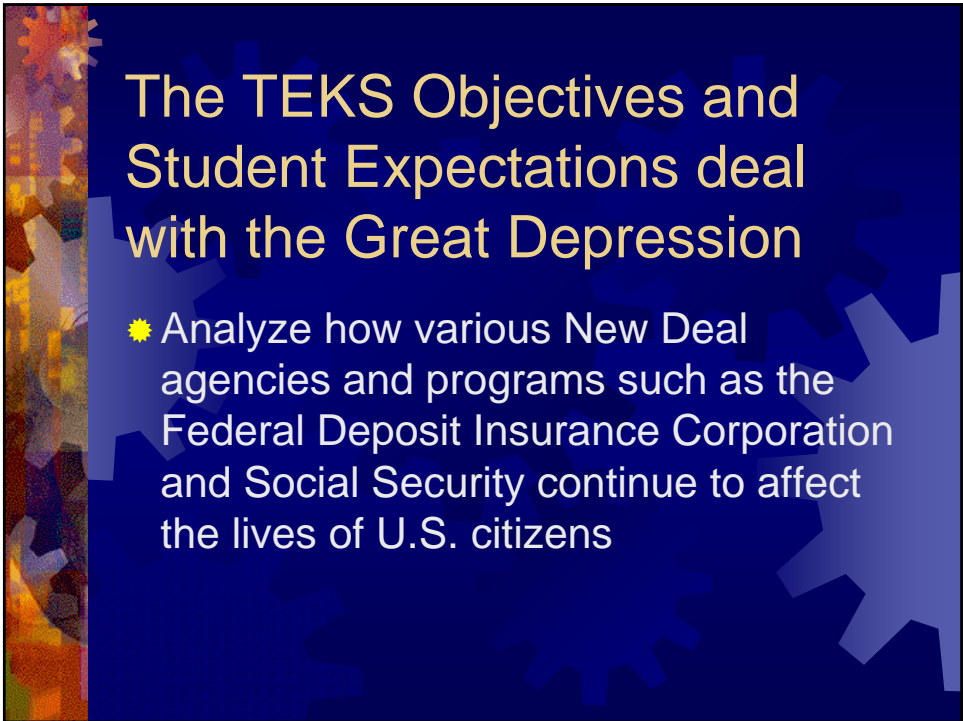
## The TEKS Objectives and Student Expectations deal with the Great Depression

- Analyze the effects of the Great Depression on the U.S. economy and government



## Impacts on government and the economy

- Loss of confidence in the self-correcting nature of the economy
- Increases in the role of the government in the economy
- Increases in the provision of government services



## The TEKS Objectives and Student Expectations deal with the Great Depression

- Analyze how various New Deal agencies and programs such as the Federal Deposit Insurance Corporation and Social Security continue to affect the lives of U.S. citizens

## New Deal programs

- AAA (1933) – Provided crop subsidies to protect farmers from price drops
- CWA (1934) – Public works jobs at \$15 per week for 4 million workers
- CCC (1933) – Sent 250,000 young men to work in camps on reforestation and conservation
- FERA (1933) – provided millions in direct aid to the unemployed

## New Deal programs

- Glass-Steagall Act (1933) – Federally insured bank deposits (FDIC)
- NIRA (1933) – created NRA to enforce minimum wage and fair competition
- NYA (1935) – part-time employment for over 2 million students
- PWA (1933) – Appropriations from Congress for public works projects

## New Deal programs

- REA (1935) – encouraged farmers to join cooperatives to get electricity to rural areas
- SEC (1934) – Regulated stock market and restricted margin buying
- Social Security (1935) – setup to provide pensions, unemployment insurance, and aid
- TVA (1933) – government program to build dams and provide electricity

## New Deal programs

- Wagner Act (1935) – allowed workers to join unions and restricted anti-union tactics
- WPA (1935) – employed more than 8.5 million in construction and other jobs. This program was critical for projects in the arts, theater, and literary projects.