The Great Depression

Outcome: Causes of The Great Depression
Causes of The Great Depression

1. A Depression is:
   a. One phase in a larger **business cycle**
   b. Characterized by a vicious cycle of:
      i. Low consumer/trust/confidence ---> Low **demand** for goods
      ii. Low prices & low **profits** ---> Layoffs & rising **unemployment**
      iii. Lower incomes ---> Reduced consumer **buying** power
Causes of The Great Depression

2. Causes of the Great Depression (Worst in U.S. History)
   a. Easy Credit created an “Illusion of Prosperity” in the 1920’s
      i. Installment plans allowed purchases without cash
      ii. Created an unnatural demand for goods and eventual overproduction
      iii. Problem arose when consumer credit was exhausted
Causes of The Great Depression

b. Farmers’ Debt
   i. Overproduction ---> crop surplus; $S > D$ = low prices (deflation)
   ii. Loss of war-time markets, especially in Europe
   iii. Many faced foreclosure; loss of property because of mortgage default
Causes of The Great Depression

c. Industrial Overproduction/Overexpansion
   i. The post-war buying boom slowed, but production didn’t
   ii. Isolationism caused a reduction in trade

d. Growing Unemployment
Causes of The Great Depression

e. Maldistribution of Wealth (5% controlled 33% of the wealth)
   i. 1920’s ---> the average worker output increased, but wages didn’t keep up
   ii. Conclusion: workers were working harder for less
   iii. Huge profits went to expansion instead of higher wages for workers
   iv. Conclusion: the trickle-down theory wasn’t working
Causes of The Great Depression

f. Stock Market Problems (sent false signals about the economy)
   i. Wild speculation; too much buying “on margin” caused inflation
   ii. Oct. 29, 1929: “Black Tuesday”
      1. Selling panic, but no buyers
      2. Share prices deflated & margin loans came due
Causes of The Great Depression

g.  Bad Banking System (Banks were independent and unregulated)
   i.  Risky loans were issued; no FDIC protection existed for depositors
   ii. Many banks played the stock market w/consumer deposits
   iii. The Stock Market Crash ----> “Bank runs” = bank failures (11,000 closed)
Causes of The Great Depression

h. Government Inaction
   i. Laissez-faire policies towards banks & stock market
   ii. Bad tariff policy (increases backfired causing a “trade war”)