



Hoover and the Crash

Objectives

1. Read about America's economic problems during the late 1920s.
2. Understand how the Great Depression started.
3. Find out how the Depression affected Americans.
4. Discover President Hoover's response to the Depression.

Prepare to Read

Reading Skill

Analyze Causes Analyzing causes will help you to understand the *why* and *how* of history. As you read the following section, try to answer the question: What caused the Great Depression to start? Remember that many causes can combine to yield one effect.

Vocabulary Builder

High-Use Words

decline, p. 770
voluntary, p. 775

Key Terms

overproduction, p. 771
bankruptcy, p. 772
default, p. 772
bonus, p. 775

★ Background Knowledge As you have read in Chapter 22, the 1920s were a time of prosperity and a booming stock market. However, not everyone shared in the prosperity, and much of the boom was based on shaky practices such as buying on margin. In this section, you will see how the prosperity of the 1920s collapsed.

A Collapsing Economy

In 1928, Herbert Hoover had predicted that the United States would soon achieve the “final triumph over poverty.” In fact, the country was heading for the worst economic crisis in its history.

Signs of Weakness Several signs of economic weakness surfaced during the late 1920s. Older industries, such as coal mining, railroads, and clothing manufacture, were in decline. Agriculture was also experiencing a prolonged downturn.

Yet, as sections of the economy declined, stock prices continued to soar. As you have read, margin buying allowed people to purchase stocks by paying only a fraction of the cost at the outset and owing the balance. Margin buyers gambled that prices would be higher when they were ready to sell. The gamble seemed to pay off—for a while.

The Stock Market Crashes The prices for industrial stocks doubled between May 1928 and September 1929. But soon after, prices began a rapid slide. On Wednesday, October 23, six million shares of stock changed hands. Falling prices caused losses of \$4 billion. Brokers who had lent people money to buy on margin now began to recall their loans. Investors who could not pay had to sell their stocks. This caused prices to drop even more.

Main Idea

A series of economic weaknesses led to the collapse of the stock market in October 1929.

Vocabulary Builder

decline (dee KLAYN) v. to lose strength or power over time

On October 29, 1929—known as Black Tuesday—the stock market crumbled completely. Panicked traders rushed to sell, but there were no buyers. Prices plummeted. Investors who thought they owned valuable shares of stock were left with worthless pieces of paper. Millionaires lost their fortunes overnight.

Over the next two weeks, stock prices continued to plunge. “Everybody wanted to tell his neighbor how much he had lost,” observed a reporter for the *New York Times*. “Nobody wanted to listen. It was too repetitious a tale.”

✓Checkpoint What happened on Black Tuesday?

The Great Depression Begins

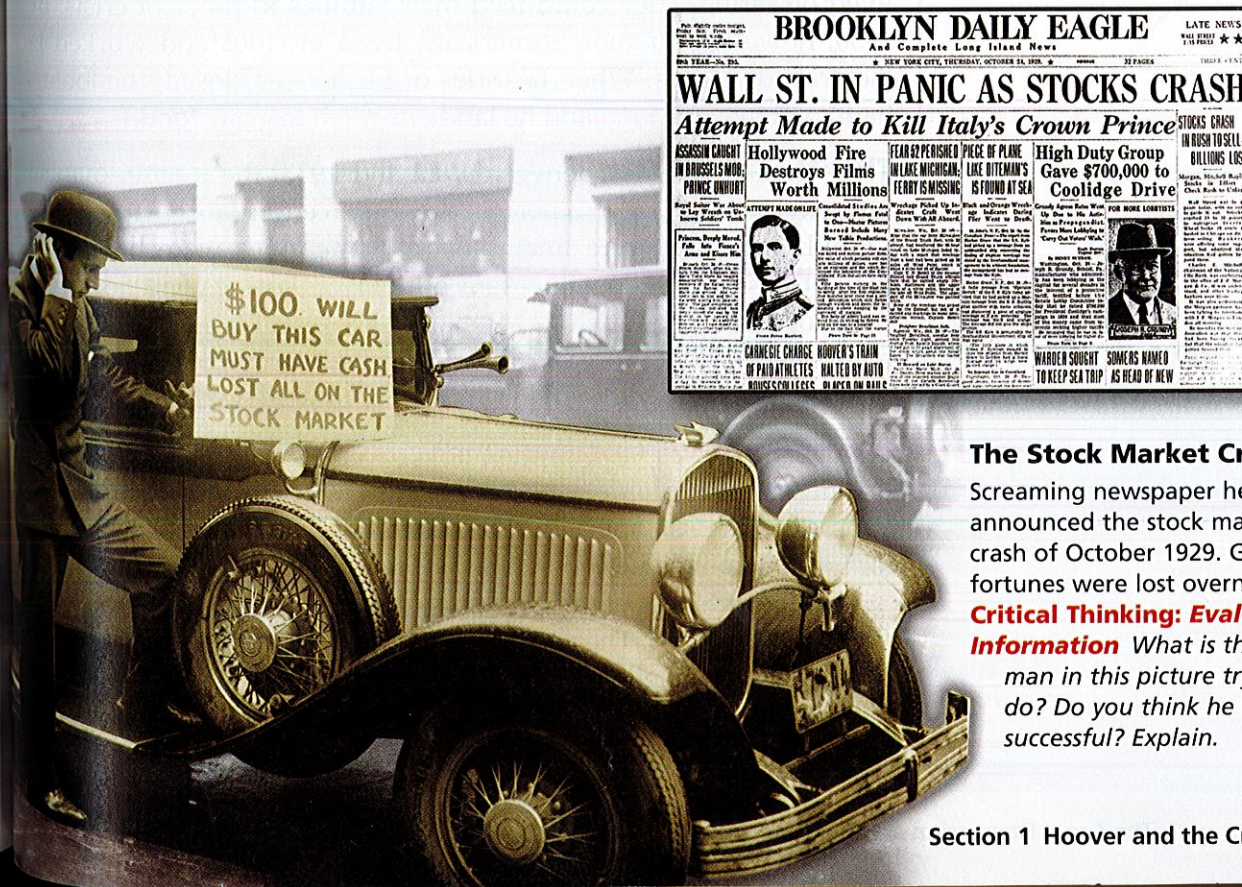
The stock market crash marked the start of a 12-year economic and social disaster known as the Great Depression. The crash, however, was less a cause than a symptom of a deepening crisis.

Troubled Industries One major cause of the Great Depression was **overproduction**, a situation in which the supply of manufactured goods exceeds the demand. Factories were producing more than people could afford to buy. With prices rising faster than salaries, many Americans cut back on their purchases.

At the same time, housing and automobile manufacture were in decline. These industries had supported American prosperity during the 1920s. By the end of the decade, though, most Americans who could afford houses and cars had already bought them. Between 1926 and 1929, spending on construction fell from \$11 billion to \$9 billion. In the first nine months of 1929, car sales dropped by more than one third.

Main Idea

Overproduction and bank failures contributed to a worsening economic crisis.



The Stock Market Crash

Screaming newspaper headlines announced the stock market crash of October 1929. Giant fortunes were lost overnight. **Critical Thinking: Evaluate Information** What is the young man in this picture trying to do? Do you think he will be successful? Explain.

Analyze Causes
Identify two sentences on this page or the previous page that give causes of the Depression.

Crisis in Banking A nationwide banking crisis also contributed to the Depression. In the countryside, struggling farmers were finding it impossible to repay their bank loans. When their farms failed, many of the small banks that had loaned farmers money also went out of business.

City banks failed, too. Some of the largest banks had invested in the stock market or loaned huge amounts to speculators. After the crash, terrified depositors flocked into banks, demanding to withdraw their savings. More than 5,500 banks closed between 1930 and 1933. Many depositors were left penniless.

The Downward Spiral With people unable to buy what factories were producing, many workers lost their jobs. Thus, they had even less money with which to make purchases. In a vicious circle, declining sales led to more factory closings and layoffs. Many companies were forced into bankruptcy. **Bankruptcy** is financial failure caused by a company's inability to pay its debts. These bankruptcies, of course, caused even more layoffs.

The Great Depression soon spread worldwide. After World War I, many European nations owed America huge sums of money. A slowdown in international trade, however, caused these countries to **default**, or fail to repay their loans. European nations sank into their own economic depression.

Checkpoint How did the Depression spread overseas?

Main Idea

During the Great Depression, unemployment rose and millions of people faced poverty.

The Human Cost

The Great Depression severely affected more people than any previous downturn. During earlier depressions, most Americans still lived on farms. They could feed their families in times of crisis. By 1930, however, far more Americans lived in cities and worked in factories or offices. When factories or businesses closed, the jobless had no money for food and no land on which to grow food.

The Unemployed Between 1929 and 1933, the unemployment rate skyrocketed from 3 percent to 25 percent. Nationwide, some 13 million people were unemployed. Some cities were harder hit than others. In Toledo, Ohio, four out of five workers had no work.

People lucky enough to have jobs saw their hours cut back and their salaries slashed. Coal miners who had earned \$7 a day before the Depression now fought for the chance to work for a dollar.

Growing Poverty Grinding poverty crushed Americans' spirits. In cities, jobless people lined up at soup kitchens, waiting for meals. People tried to sell apples or pencils on the street or to pick up trash for food. Some men hopped freight trains in search of work.

On the outskirts of big cities, homeless people built communities of rundown shacks. They called these makeshift towns Hoovervilles, because they blamed the President for failing to solve the crisis. They slept under "Hoover blankets," or newspapers.

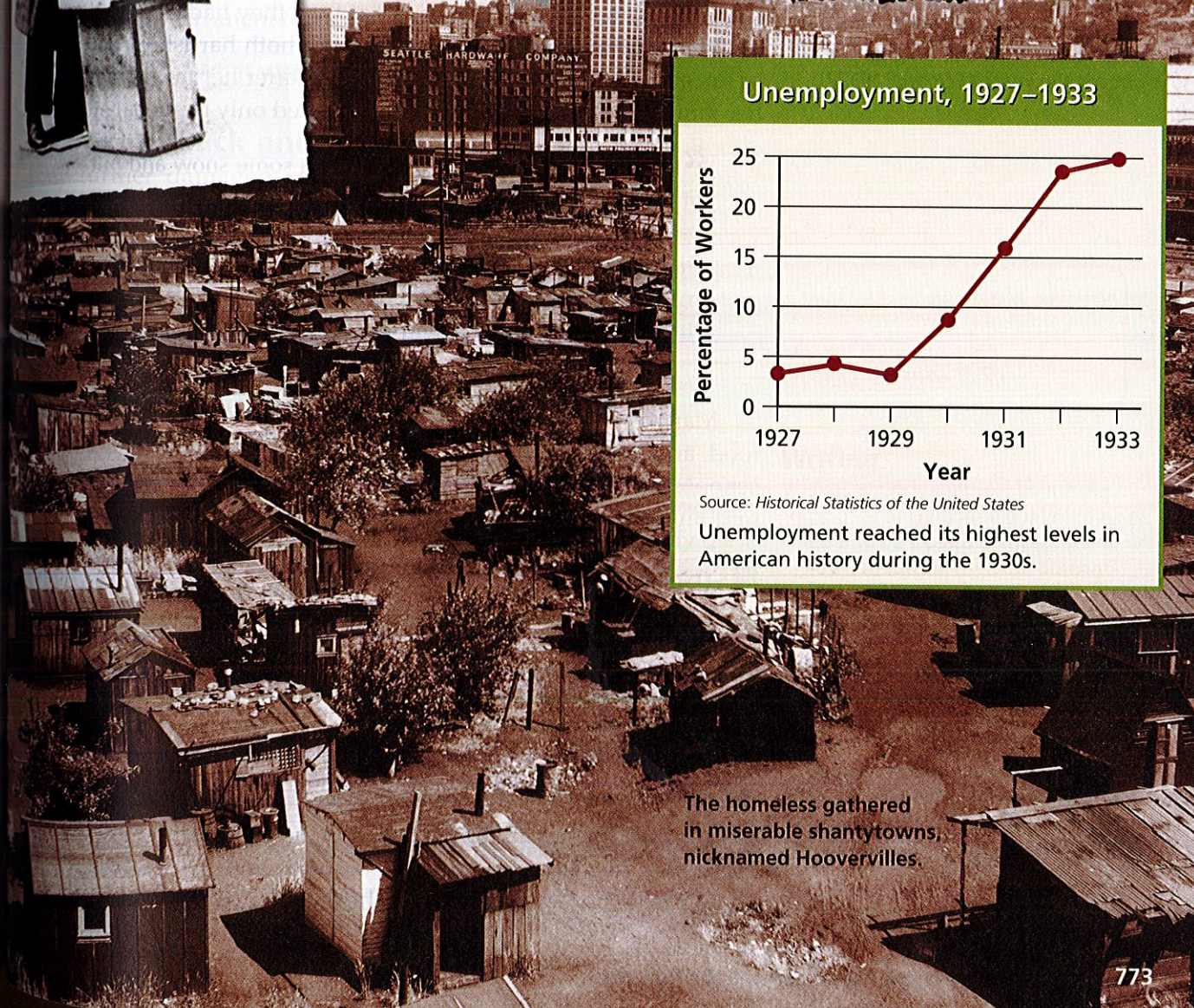
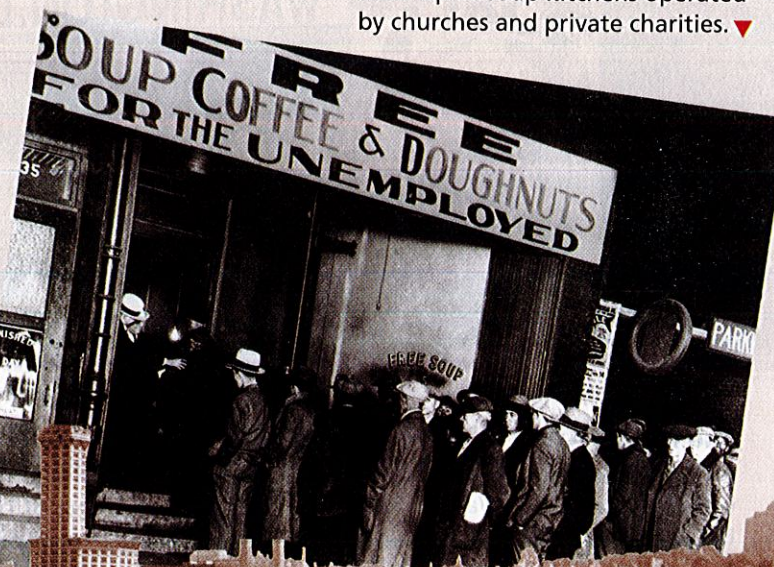
THE GREAT DEPRESSION:
Misery in the Cities



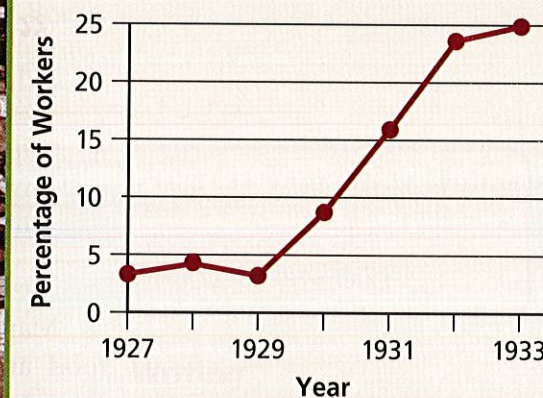
Apple sellers were a common sight on street corners.

The misery of the Great Depression touched all Americans. Much of the most visible suffering took place in the nation's cities. **Critical Thinking: Link Past and Present** How do you think you would react if another depression like this one struck the United States?

Desperate for food, the jobless lined up at soup kitchens operated by churches and private charities. ▼



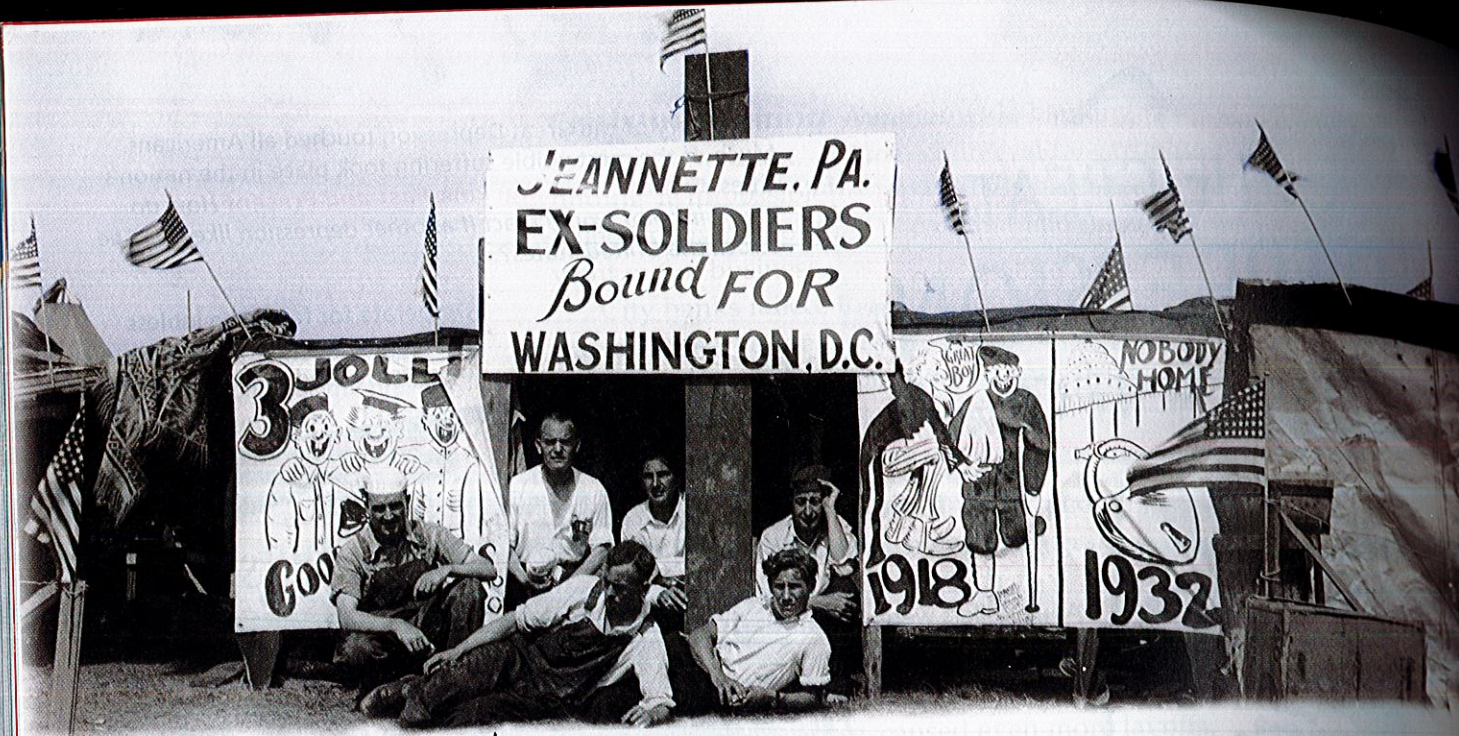
Unemployment, 1927–1933



Source: Historical Statistics of the United States

Unemployment reached its highest levels in American history during the 1930s.

The homeless gathered in miserable shantytowns, nicknamed Hoovervilles.



The Bonus Army

In 1932, these World War I veterans headed for Washington, D.C., to demand their bonus.

Critical Thinking: Evaluate Information What is the meaning of the poster on the right for the years 1918 and 1932?

Impact on Families The Depression had a harsh effect on American families. Many fathers left their homes in search of work. Others, ashamed of being jobless, quit looking for work or deserted their families. With their futures uncertain, young people put off marriage plans. When couples did marry, they had fewer children.

For children, the Depression brought both hardship and a sense of uncertainty. One woman recalled that, after her father lost his job, her family had to move into a garage heated only by a coal stove:

“In the morning, we’d get out and get some snow and put it on the stove and melt it and wash around our faces. Never the neck or anything. Put on our two pairs of socks on each hand and two pairs of socks on our feet, and long underwear and lace it up with Goodwill shoes. Off we’d walk, three, four miles to school.”

—Dynamite Garland, quoted in *Hard Times* (Terkel)

Many children suffered lifelong health problems from a lack of food and dental care. Their education suffered as cash-strapped school boards cut the school year or closed schools. Almost one million rural children under the age of 13 did not attend school at all.

Checkpoint What were Hoovervilles?

Main Idea

President Hoover’s efforts to solve the Great Depression did not succeed.

Hoover Responds

As you saw, many Americans blamed President Hoover for the worsening crisis. Hoover’s advisers considered the Depression a temporary setback. They recommended doing nothing.

Government Aid Hoover disagreed. After his brilliant career in mining and foreign aid administration, he believed in taking action. However, he thought business leaders and local governments should take the lead, rather than the federal government.

Hoover met with business executives and encouraged city and state governments to create public works projects to employ jobless people. He also urged private charities to set up soup kitchens.

Eventually, Hoover realized that **voluntary** action alone would not relieve the crisis. In 1932, he formed the Reconstruction Finance Corporation (RFC) to fund critical businesses, such as banks, insurance companies, and railroads. The RFC also gave money to local governments to fund public-works projects. Despite such measures, the economic situation continued to worsen.

The Bonus Army In June 1932, a protest began that would seal the President’s fate. Eight years earlier, Congress had approved a **bonus, or extra payment**, of \$1,000 for every veteran of World War I. This bonus was not to be paid until 1945. Made desperate by the Depression, some veterans demanded immediate payment.

When Hoover refused, an angry “Bonus Army” of at least 20,000 veterans marched to Washington, where they camped out. But Congress also rejected their plea. Most marchers left, but about 2,000 stubbornly remained in tents or abandoned buildings. To clear them out, government forces used tear gas, tanks, and machine guns. This lopsided attack killed at least one veteran, injured 100, and left the tent city a smoldering ruin. Many Americans were outraged by the image of government forces firing on unarmed veterans.

Checkpoint What was the goal of the Bonus Army?

Looking Back and Ahead The treatment of the Bonus Army further damaged Hoover’s fading popularity. In the next section, you will see how voters turned to a dynamic new leader.

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Comprehension and Critical Thinking

- (a) **List** List the major troubles that industries faced in the Great Depression.
(b) **Analyze Cause and Effect** How did those troubles cost people their jobs?
- (a) **Describe** What actions did President Hoover take to try to ease the economic crisis?
(b) **Detect Points of View** Why do you think Hoover wanted business leaders and local governments to take the lead?

Reading Skill

- Analyze Causes** Reread the text following the subheading “The Downward Spiral.” Identify the causes in this downward spiral.

Vocabulary Builder

- Answer the following questions in complete sentences that show your understanding of the key terms.
- How can **overproduction** hurt the economy?
 - When would a company declare **bankruptcy**?
 - What happens when a company or individual **defaults** on a loan?

Writing

- Review this section, including photos and other visual elements. List three possible topics for a multimedia presentation that includes non-print media such as photographs, sound recordings, interviews, computer presentations, and film. Choose one of the three topics and write a sentence describing the topic and the kinds of materials you might use in your presentation.