## The Long Bull Market

**Main Idea** **The long period of rising stock prices led many people to risky investment practices.**

**Reading Connection** What are your strategies for saving money? Read on to find out about people's efforts to make money in the stock market during the 1920s.

The wave of optimism that swept Hoover into the White House also drove stock prices to new highs. The **stock market** was established as a system for buying and selling shares of companies. Sometimes circumstances in the stock market lead to a long period of rising stock prices, which is known as a **bull market.** In the late 1920s a prolonged bull market convinced many Americans to **invest** heavily in stocks. By 1929 about 3 million Americans, or roughly 10 percent of households, owned stocks.

As the market continued to soar, many investors began buying stocks on **margin,** meaning they made only a small cash down payment—as low as 10 percent of the price. With $1,000 an investor could buy $10,000 worth of stock. The other $9,000 would come as a loan from a stockbroker, who earned both a commission on the sale and interest on the loan. The broker held the stock as collateral.

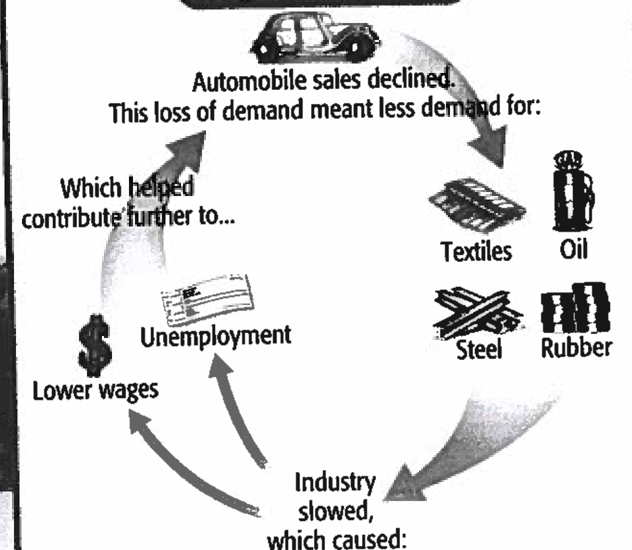
As long as stock prices kept rising, buying on margin was safe. For example, an investor who borrowed money to buy $10,000 worth of stocks had to wait only a short time for them to rise to $11,000 in value. The investor could then sell the stock, repay the loan, and make $1,000 in profit. The problem came if the stock price began to fall. To protect the loan, a broker could issue a **margin call,** demanding the investor repay the loan at once. As a result, many investors were very sensitive to any fall in stock prices. If prices fell, they had to sell quickly, or they might not be able to repay their loans.

### The Great Depression

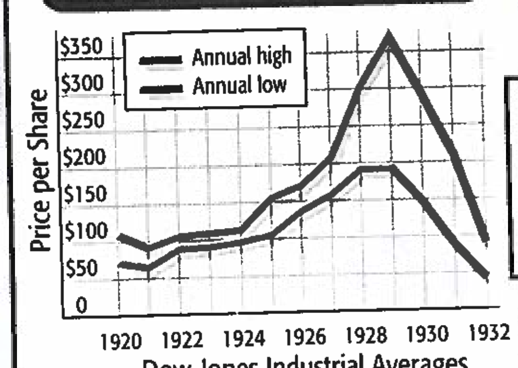
#### Causes

- Overproduction and low demand leads to employee layoffs
- Low wages reduce consumer buying power
- High tariffs restrict foreign demand for American goods
- Unemployment reduces buying power further


#### Cyclical Effect




#### Stock Prices, 1920–1932




Source: Standard and Poor's *Security Price Index Record.*

#### Graph *Skills*

1. **Interpreting Graphs** Stock prices peaked in 1929. Before this peak, when did they begin to rise sharply?
2. **Making Generalizations** How did the decline in auto sales affect many other industries?

Before the late 1920s, the prices investors paid for stocks generally reflected the stocks' true value. If a company made a profit or had good future sales prospects, its stock price rose, while a drop in earnings or an aging product line could send the price down. In the late 1920s, however, hordes of new investors bid prices up without regard to a company's earnings and profits. Buyers, hoping to make a fortune overnight, engaged in **speculation.** Instead of investing in the future of the companies, speculators took risks, betting that the market would continue to climb, thus enabling them to make money quickly.

**Reading Check** **Summarizing** What was the stock market like in the 1920s?

## The Great Crash

**Main Idea** **The October 1929 stock market crash led to bank failures across the nation.**

**Reading Connection** **If a stock market crash were to occur today, how would your family be affected? Read on to learn about the stock market collapse in 1929.**

The bull market lasted only as long as investors continued putting new money into it. By the latter half of 1929, the market was running out of new customers. In September professional investors sensed danger and began to sell off their holdings. Prices slipped. Other investors sold shares to pay the interest on their brokerage loans. Prices fell further.

**Crash!** On Monday, October 21, Groucho Marx, the comic star of stage and screen, was awakened by a telephone call from his broker. "You'd better get down here with some cash to cover your margin," the broker said. The stock market had plunged. The dazed comedian had to pay back the money he had borrowed to buy stocks, which were now selling for far less than he had paid.

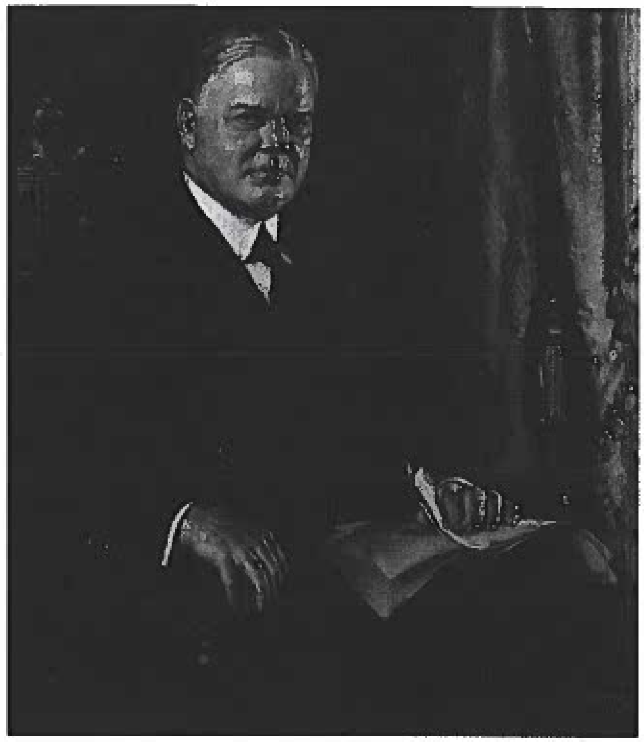
Other brokers made similar margin calls. Frightened customers put their stocks up for sale at a frenzied pace, driving the market into a tailspin. When Marx arrived at the brokerage, he found ticker tape "knee deep on the floor." He further recalled, "People were shouting orders to sell and others were frantically scribbling checks in vain efforts to save their original investments."

On October 24, a day that came to be called Black Thursday, the market plummeted further. Marx was wiped out. He had earned a small fortune from plays and films, and now it was gone in the blink of an eye. Like many other investors, he was deeply in debt. Arthur Marx recalled his father's final visit to the brokerage, as Groucho looked around and spotted his broker:

> ❝He was sitting in front of the now-stilled ticker-tape machine, with his head buried in his hands. Ticker tape was strewn around him on the floor, and the place . . . looked as if it hadn't been swept out in a week. Groucho tapped [him] on the shoulder and said, 'Aren't you the fellow who said nothing could go wrong?' 'I guess I made a mistake,' the broker wearily replied. 'No, I'm the one who made a mistake,' snapped Groucho. 'I listened to you.'❞
>
> —quoted in 1929: *The Year of the Great Crash*

The following week, on October 29, a day later dubbed **Black Tuesday,** prices took the steepest dive yet. That day stocks lost $10 to $15 billion in value.

By mid-November stock prices had dropped by over one-third. Some $30 billion was lost, a **sum** roughly equal to the total wages earned by Americans in 1929. The stock market crash was not the major cause of the Great Depression, but it undermined the economy's ability to hold out against its other weaknesses.



**Picturing History**

**Herbert Hoover** The nation and its new president felt confident about the future in early 1929. Why were Americans so optimistic?

**Banks in a Tailspin** The market crash severely weakened the nation's banks in two ways. First, many banks had lent money to stock speculators. Second, many banks had invested depositors' money in the stock market, hoping for higher returns than they could get by using the money for conventional loans.

When stock values collapsed, the banks lost money on their investments, and the speculators defaulted on their loans. Having suffered serious losses, many banks cut back drastically on the loans they made. With less credit available, consumers and businesses were unable to borrow as much money as they had previously. This helped to put the economy into a recession.

For some banks, the losses they suffered in the crash were more than they could absorb, and they were forced to close. At that time, the government did not insure bank deposits; therefore, if a bank collapsed, customers lost their savings. The bank failures in 1929 and early 1930 triggered a crisis of confidence in the banking system.

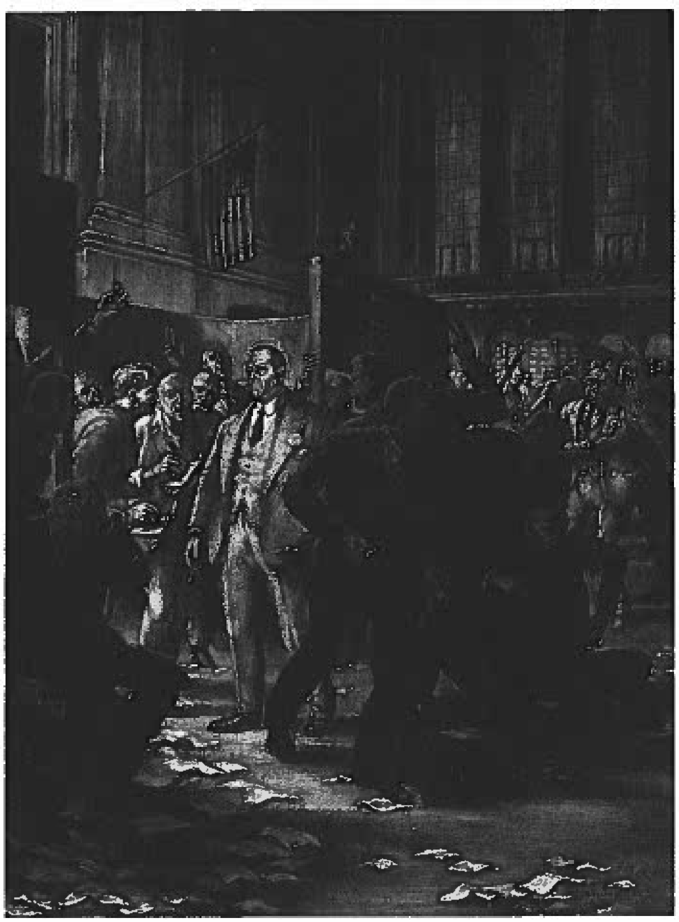
News of bank failures worried many Americans. They began to make runs on the nation's banks, causing the banks to collapse. A bank run takes place when many depositors decide to withdraw their money at one time, usually for fear the bank is going to collapse. During this time, there were no guarantees to protect people's money in case of a bank collapse.

Most banks make a profit by lending money received from depositors and collecting interest on the loans. The bank holds on to only a fraction of the depositors' money to cover everyday business, such as occasional withdrawals. Ordinarily that reserve is enough to meet the bank's needs, but if too many people withdraw their money, the bank will eventually collapse. During the first two years of the Depression, more than 3,000 banks—over 10 percent of the nation's total—were forced to close.

Reading Check **Evaluating** How did bank failures contribute to the Great Depression?

**History** *Through Art*

**Wall Street Panic** This painting shows the confusion and chaos surrounding the financial industry in October 1929. How does the artist depict a sense of disorder?



## The Roots of the Great Depression

Main Idea **An uneven distribution of income, the lack of foreign markets for exports, and the Federal Reserve's mistakes contributed to the Great Depression.**

**Reading Connection** What do you believe is the current distribution of income in America? Read on to learn about the distribution of income just prior to the Great Depression.

The stock market crash helped put the economy into a recession. Yet the crash would not have led to a long-lasting depression if other forces had not been at work. The roots of the Great Depression were deeply entangled in the economy of the 1920s.

**The Uneven Distribution of Income** Most economists agree that overproduction was a key cause of the Depression. More efficient machinery increased the production capacity of both factories and farms.

Most Americans did not earn enough to buy up the flood of goods they helped produce. While manufacturing output per person-hour rose 32 percent, the average worker's wage increased only 8 percent. In 1929 the top 5 percent of all American households earned 30 percent of the nation's income. By contrast, about two-thirds of families earned less than $2,500 a year, leaving them little expendable income.


STAGE BROADWAY SCREEN
VARIETY
PRICE 25¢
NEW YORK, WEDNESDAY, OCTOBER 30, 1929
WALL ST. LAYS AN EGG

▲ *Newspaper headline the day after Black Tuesday*

During the 1920s many Americans bought high-cost items on the **installment** plan, under which they would make a small down payment and pay the rest in monthly installments. Some buyers could not pay off their debts without reducing other purchases. This low consumption then led manufacturers to cut production and lay off employees.

The slowdown in retail manufacturing had repercussions throughout the economy. When radio sales slumped, for example, makers cut back on their orders for copper wire, wood cabinets, and glass radio tubes. Montana copper miners, Minnesota lumberjacks, and Ohio glassworkers, in turn, lost their jobs. Jobless workers had to cut back purchases, further reducing sales. This kind of chain **reaction** put more and more Americans out of work.

**The Loss of Export Sales** Many jobs might have been saved if American manufacturers had sold more goods abroad. As the bull market of the 1920s accelerated, U.S. banks made high-interest loans to stock speculators instead of lending money to foreign companies. Without these loans from U.S. banks, foreign companies purchased fewer American products.

Matters grew worse after June 1930, when Congress passed the **Hawley-Smoot Tariff**, raising the average tariff rate to the highest level in American history. The Hawley-Smoot Tariff aimed to protect American manufacturers from foreign competition, but it damaged American sales abroad. Because imports now cost much more, Americans bought fewer of them. Foreign countries responded by raising their own tariffs against American products, and this caused fewer American products to be sold overseas. In 1932 U.S. exports fell to about one-fifth of what they had been in 1929, which hurt both American companies and farmers.

**Mistakes by the Federal Reserve** Just as consumers were able to buy more goods on credit, access to easy money propelled the stock market. Instead of raising interest rates to curb excessive speculation, the Federal Reserve Board kept its rates very low.

The Board's failure to raise interest rates contributed to the Depression in two ways. First, by keeping rates low, it encouraged member banks to make risky loans. Second, low interest rates led business leaders to think the economy was still expanding. As a result, they borrowed more money to expand production, which led to overproduction when sales were falling. When the Depression hit, companies had to lay off workers to cut costs. Then the Fed made another mistake. It raised interest rates, tightening credit. The economy continued to spiral downward.

✓ Reading Check **Examining** How did the decline in worldwide trade contribute to the Depression?

**HISTORY Online** **Study Central**

For help with the concepts in this section of *American Vision: Modern Times* go to tav.mt.glencoe.com and click on ***Study Central.***

## SECTION 1 ASSESSMENT

### Checking for Understanding

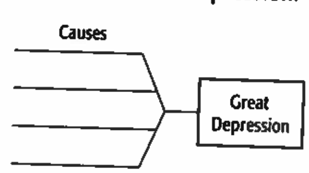
1. **Vocabulary** Define: stock market, bull market, invest, margin, margin call, speculation, sum, installment, reaction.
2. **People and Terms** Identify: Alfred E. Smith, Black Tuesday, Hawley-Smoot Tariff.
3. **Explain** the significance of the stock market crash, including Black Tuesday.

### Reviewing Big Ideas

4. **Interpreting** How did the practices of buying on margin and speculation cause the stock market to rise?

### Critical Thinking

5. **Evaluating** Why did the stock market crash cause banks to fail?
6. **Organizing** Use a graphic organizer similar to the one below to list the causes of the Great Depression.




### Analyzing Visuals

7. **Analyzing Graphs** Study the graphs on page 470. Note that decreased demand for automobiles ultimately led to layoffs. These layoffs further decreased the demand for automobiles. What do you think might have ended this cycle?

### Writing About History

8. **Expository Writing** Write an article for a financial magazine explaining the rapid decline of the stock market in 1929 and the reasons for the Black Tuesday crash. CA 11WA2.1a

SECTION 2

# Life During the Depression

## Guide to Reading

**Connection**
In the previous section, you learned about the causes of the Great Depression. In this section, you will discover how the Depression worsened and people sought escape from the hardships.

**Main Idea**

- As banks continued to fail and people lost jobs and homes, soup kitchens and shantytowns sprang up throughout the United States. Droughts during the 1930s made the Depression even worse for farmers. (p. 475)
- Movies and radio shows allowed people to forget temporarily the miseries of the Depression. (p. 477)
- Painters, photographers, and writers all captured the experiences of people during the Great Depression. (p. 479)

**Content Vocabulary**
bailiff, shantytown, Hooverville, hobo, Dust Bowl, soap opera

**Academic Vocabulary**
suspend, colleague, technique

**People and Terms to Identify**
Walt Disney, Grant Wood, John Steinbeck, William Faulkner

**Reading Objectives**

- **Describe** how the Great Depression affected American families.
- **Discuss** how artists portrayed the effects of the Depression.

**Reading Strategy**
**Taking Notes** As you read about life in the United States during the Great Depression, use the major headings of the section to create an outline similar to the one below.

**Life During the Depression**
I. The Depression Worsens
A.
B.
C.
II.

**Preview of Events**

1930 — 1935 — 1940

- **1930** Grant Wood paints *American Gothic*
- **1932** Drought sweeps Great Plains
- **1934** Dust storms destroy 300 million acres
- **1937** Walt Disney releases *Snow White and the Seven Dwarfs*
- **1939** Popular musical *The Wizard of Oz* released

**The following are the main History–Social Science Standards covered in this section.**

**11.6** Students analyze the different explanations for the Great Depression and how the New Deal fundamentally changed the role of the federal government.

**11.6.3** Discuss the human toll of the Depression, natural disasters, and unwise agricultural practices and their effects on the depopulation of rural regions and on political movements of the left and right, with particular attention to the Dust Bowl refugees and their social and economic impacts in California.

## The Big Idea

**Societies change over time.** As the Depression worsened, many people could not afford housing. They lived in makeshift villages and traveled from town to town in search of work. When the Dust Bowl hit in the Great Plains, many more found themselves without jobs or places to live. People found escape from their troubles in movies or radio programs, which allowed them brief visits into a more exciting and happier world. At the same time, Depression hardships inspired painters, photographers, and writers to depict their views of life under such difficult circumstances.

## The Depression Worsens

*Main Idea* **As banks continued to fail and people lost jobs and homes, soup kitchens and shantytowns sprang up throughout the United States. Droughts during the 1930s made the Depression worse for farmers.**

**Reading Connection** Have you or someone you know ever helped serve in a local soup kitchen or food pantry? Read on to discover how people relied on private charities for their meals during the Great Depression.

In 1930, 1,352 banks **suspended** operations across the nation, more than twice the number of bank failures in 1929. As the Depression grew steadily worse during Hoover's administration, many people found themselves unable to afford housing.

### ★ An American Story ★

A young girl with the unusual name of Dynamite Garland was living with her family in Cleveland, Ohio, in the 1930s when her father, a railroad worker, lost his job. Unable to afford rent, they gave up their home and moved into a two-car garage.

The hardest aspect of living in a garage was getting through the frigid winters. "We would sleep with rugs and blankets over the top of us," Garland later recalled. "In the morning we'd . . . get some snow and put it on the stove and melt it and wash 'round our faces." When Garland's father found a part-time job in a Chinese restaurant, the family "lived on those fried noodles."

On Sundays the family looked at houses for sale. "That was a recreation during the Depression," said Garland. "You'd go and see where you'd put this and where you could put that, and this is gonna be my room." In this way, the family tried to focus on better times. Movies and radio programs also provided a brief escape from their troubles, but the struggle to survive left little room for pleasure.

—adapted from *Hard Times*

By 1933 more than 9,000 banks had failed. In 1932 alone some 30,000 companies went out of business. By 1933 more than 12 million workers were unemployed—about one fourth of the workforce. Average family income dropped from $2,300 in 1929 to $1,600 a few years later.

**Lining Up at Soup Kitchens** People without jobs often went hungry. Whenever possible they joined bread lines to receive a free handout of food or lined up outside soup kitchens, which private charities set up to give poor people a meal.

Peggy Terry, a young girl in Oklahoma City during the Depression, later told an interviewer how each day after school, her mother sent her to the soup kitchen:

> ❝If you happened to be one of the first ones in line, you didn't get anything but water that was on top. So we'd ask the guy that was ladling out soup into the buckets—everybody had to bring their own bucket to get the soup—he'd dip the greasy, watery stuff off the top. So we'd ask him to please dip down to get some meat and potatoes from the bottom of the kettle. But he wouldn't do it.❞
>
> —quoted in *Hard Times*

**Living in Makeshift Villages** Families or individuals who could not pay their rent or mortgage lost their homes. Some of them, paralyzed by fear and humiliation over their sudden misfortune, simply would not or could not move. Their landlord would then ask the court for an eviction notice. Court officers called **bailiffs** then ejected the nonpaying tenants, piling their belongings in the street.

Throughout the country, newly homeless people put up shacks on unused or public lands, forming communities called **shantytowns.** Blaming the president for their plight, people referred to such places as **Hoovervilles.**


*An unemployed man advertising his skills* ➤

**HISTORY Online**

**Student Web Activity** Visit the *American Vision: Modern Times* Web site at tav.mt.glencoe.com and click on ***Student Web Activities—Chapter 9*** for an activity on the Great Depression.

In search of work or a better life, many homeless and unemployed Americans began to wander around the country, walking, hitchhiking, or, most often, "riding the rails." These wanderers, called **hobos,** would sneak past railroad police to slip into open boxcars on freight trains for a ride to somewhere else. They camped in "hobo jungles," usually situated near rail yards. Hundreds of thousands of people, mostly boys and young men, wandered from place to place in this fashion, sleeping and eating where they could.

**The Dust Bowl** Farmers soon faced a new disaster. Since the beginnings of homesteading on the Great Plains, farmers had gambled with nature. Their plows had uprooted the wild grasses that held the soil's moisture. The new settlers then blanketed the region with wheat fields.

When crop prices dropped in the 1920s, however, Midwestern farmers left many of their fields uncultivated. Then, beginning in 1932, a terrible drought struck the Great Plains. With neither grass nor wheat to hold the scant rainfall, the soil dried to dust. From the Dakotas to Texas, America's pastures and wheat fields became a vast **"Dust Bowl."**

Winds whipped the arid earth, blowing it aloft and blackening the sky. When the dust settled, it buried crops and livestock and piled up against farmhouses like snow. No matter how carefully farm families sealed their homes, dust covered everything. As the drought persisted, the number of yearly dust storms grew, from 22 in 1934 to 72 in 1937.

Only some Midwestern and Great Plains farmers managed to hold on to their land. If their withered fields were mortgaged, they had to turn them over to the banks. Then, nearly penniless, many families packed their belongings and headed west. Since many migrants were from Oklahoma, they became

NATIONAL GEOGRAPHIC

IMAGE OF AN ERA

Lasting a decade, the Great Depression deprived many Americans of jobs, land, and livelihoods. Plummeting crop prices and farms withering under drought, and dust clouds forced many families to take to the road in search of work, often with little success. Dismayed by scenes of destitution and homelessness, photographer Dorothea Lange joined the Resettlement Administration in 1935. In 1936 in rural Nipomo, California, Lange photographed this "Migrant Mother," a 32-year-old woman with seven children. She had just sold her car tires to buy food.