What Caused the Great Depression?
Spiral of the Depression

Demand drops.

In order to stay in business companies cut wages.

People lose their confidence & start saving their money.

Fewer goods are sold.

Demand drops even further.

People lose their jobs.

Even more people lose their confidence and spend less money.

Companies are forced to cut costs by laying people off.

The Spiral Of Depression
1.) Government Policies

Protective Tariffs

- Taxes on imported goods
- Protect U.S. farmers/businesses
- Made situation worse . . .
- Europeans lose $ → can’t afford to buy US produced goods → pass their own protective tariffs → creates a cycle of international debt
2.) Farmers in Trouble

Overproduction

- End of WWI . . . less demand
- Prohibition . . . less demand
- “Agri-businesses” – mechanized farms
- Overproduction drives prices down
Natural Disaster

- Boll weevil – insect infestation
- “Dust Bowl” – 1930’s drought/wind storms
3.) Uneven Distribution of Wealth

- Wealth of richest 1% of Americans rose 75%
- Average rise for others was only 9%
- 70% of families earned less than $2500
- Most families could not afford new goods being advertised
4.) **Living on Credit**

- Many “lived beyond their means”
- Installment plans with high interest raised people’s debt
- Debt caused many to stop spending $ . . . which slows the economic boom
5.) **Overproduction / Underconsumption**

- As personal debts rose people began to take on less debt
- Overseas demand dropped (as other countries put up their own protective tariffs)
- Production outstripped demand
6.) **Get Rich Quick Schemes**

**Florida Scam**

- Industrialist began to develop Florida
- Resorts/Hotels built
- Advertised as an ideal vacation spot
- Many bought land sight unseen hoping to resell and make a quick profit
- Scam artist, Charles Ponzi, sells swamp land to investors
7.) Stock Market Speculation

- Many Americans went “wall-street crazy”
- Stocks could be bought “on margin” (credit)
- Bought to turn a quick profit
8.) The Wall Street Crash

- October 29, 1929 “Black Tuesday”
- A panic of selling takes place as prices plummet
- 16.4 shares sold, millions more could not find buyers
- People lost everything
9.) Banking Failure

- Laissez faire policies meant that many banks were unregulated.
- Many banks had invested in the stock market.
- People panicked and withdrew their money from the banking system.
- Many could not get their money, banks did not insure accounts.
- By 1933, 25,000 banks had closed.