

**SSUSH17** Analyze the causes and consequences of the Great Depression.

a. Describe the causes, including overproduction, underconsumption, and stock market speculation that led to the stock market crash of 1929 and the Great Depression.

While many European nations suffered a post-World War I recession, the United States did not. American businesses, farms, and banks profited greatly during World War I by selling products to European markets. However, by 1929, the economic boom for the United States was over and the Great Depression began. There are numerous causes that together led to the severity of the Great Depression.

The causes of the Great Depression were:

1. Industrial **overproduction**- Industries increased their productive capacity to produce and sell more goods. As a result, a supply surplus was created. This problem became exacerbated by Europe's struggling post-war market. The European countries could not buy as much American made product due to their own financial difficulties. The United States had more goods than consumers.

2. Consumer overspending - With cash to spend after the war, Americans went on a spending spree. The development of the national consumer market in the United States and the advent of consumer credit further encouraged spending. After the Stock Market collapse in October 1929, consumers quit spending except for absolute necessities creating a surplus of goods in the market place. This caused **Under-consumption**, which deepened the economic slowdown.

3. "Get rich quick" attitudes - Investors sought to maximize their wealth through speculation in real estate and the stock market. To obtain capital for expansion, companies began to offer more shares of stock for sale. Seeing growing demand for stock translate into growing value of stock shares, speculators began to buy and sell stocks quickly to profit from the rising market. Buyers were allowed to borrow money to purchase stocks with as little as 10% down. The gamble for buyers paid off as long as stock prices continued to rise. When the prices fell, these stock buyers were in debt to their stockbrokers with no way to pay off what they owed. Eventually, the speculators began to sell off stock to make profits and touched off a run on selling. The large numbers of stocks sold at the same time led to the **Stock Market Crash** of October 1929.

4. Disparity in Wealth- While many Americans prospered during the 1920s, some economic sectors did not. Farmers lost income throughout the 1920s because European markets stopped buying American farm goods. Coal mining suffered as oil began to replace coal as a fuel. In general, workers' wages failed to keep pace with prices during the period. As a result, an unequal distribution of wealth developed. The richest 1% of the American population owned approximately 40% of the country's wealth.

5. Banking Panic- As unemployment increased, depositors began to withdraw more and more of their savings from their bank. Lacking sufficient reserves, banks were forced to call in loans, which in turn touched off a wave of bankruptcies. Unable to collect outstanding loans, banks began to fail. In all, 9,000 banks failed during the 1930s. Many people lost their life savings. The bank failures led to a demand for more cash in the economy, which contradicted the Federal Reserve policy of the era. The shortage of cash in circulation worsened the effects of the economic downturn.

With all of these factors in play simultaneously, the Great Depression began and continued to get worse. A capitalist system naturally has dips in the economic cycle. However, the events of the 1920s (overproduction, under-consumption, and the Stock Market Crash) made the crisis far more severe than a normally occurring downturn.

**Define**

**Overproduction**

**Underconsumption**

**Stock Market Speculation**

1. **How did overproduction lead to the stock market crash of 1929 and the Great Depression?**
2. **How did underconsumption lead to the stock market crash of 1929 and the Great Depression?**
3. **How did stock market speculation lead to the stock market crash of 1929 and the Great Depression?**
4. **How did the banking panic lead to the stock market crash of 1929 and the Great Depression?**
5. **How did the disparity of wealth lead to the stock market crash of 1929 and the Great Depression?**