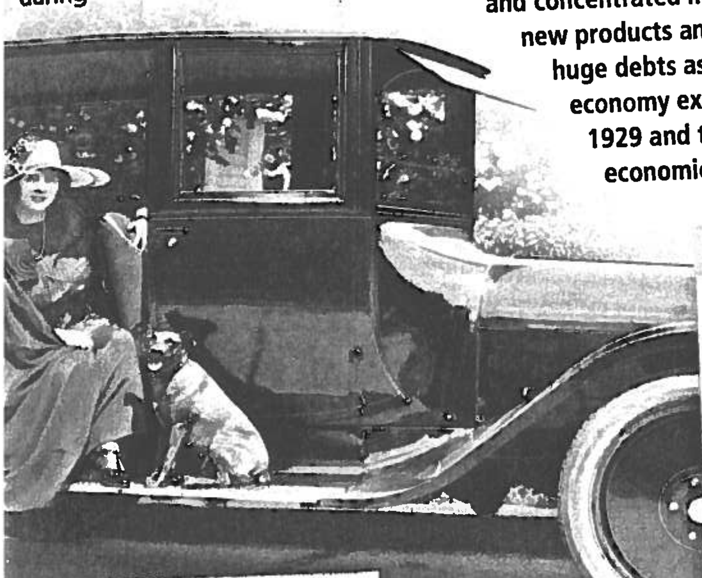
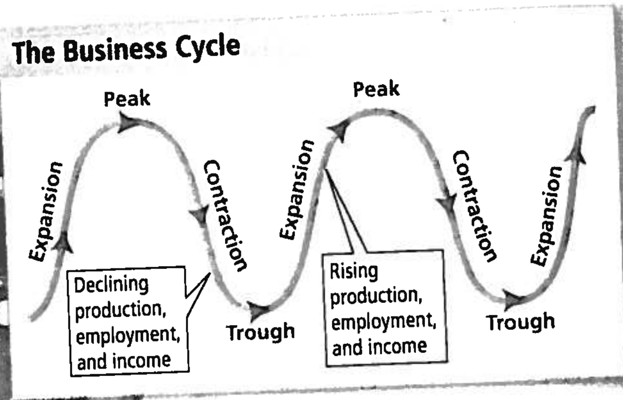
INFOGRAPHIC

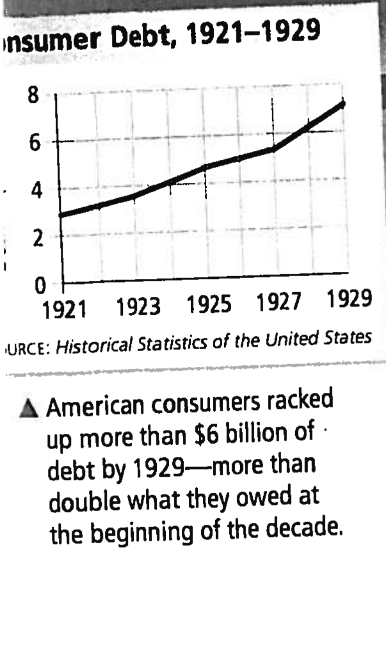
Causes of the Great Depression

Lured by luxury and easy credit, many Americans bought expensive new cars during the 1920s. ▼

History remembers the 1920s as a decade of bull markets and new fortunes. However, by 1929, the surging American economy was on the brink of financial collapse. Soaring stock prices made rich people richer and concentrated more wealth into fewer hands. Excited by a stream of new products and buyer-friendly payment plans, consumers piled up huge debts as they purchased goods on credit. Everywhere, the economy expanded, soaring toward its peak in the summer of 1929 and then pausing on the verge of contraction—and economic chaos. (See the diagram below.)







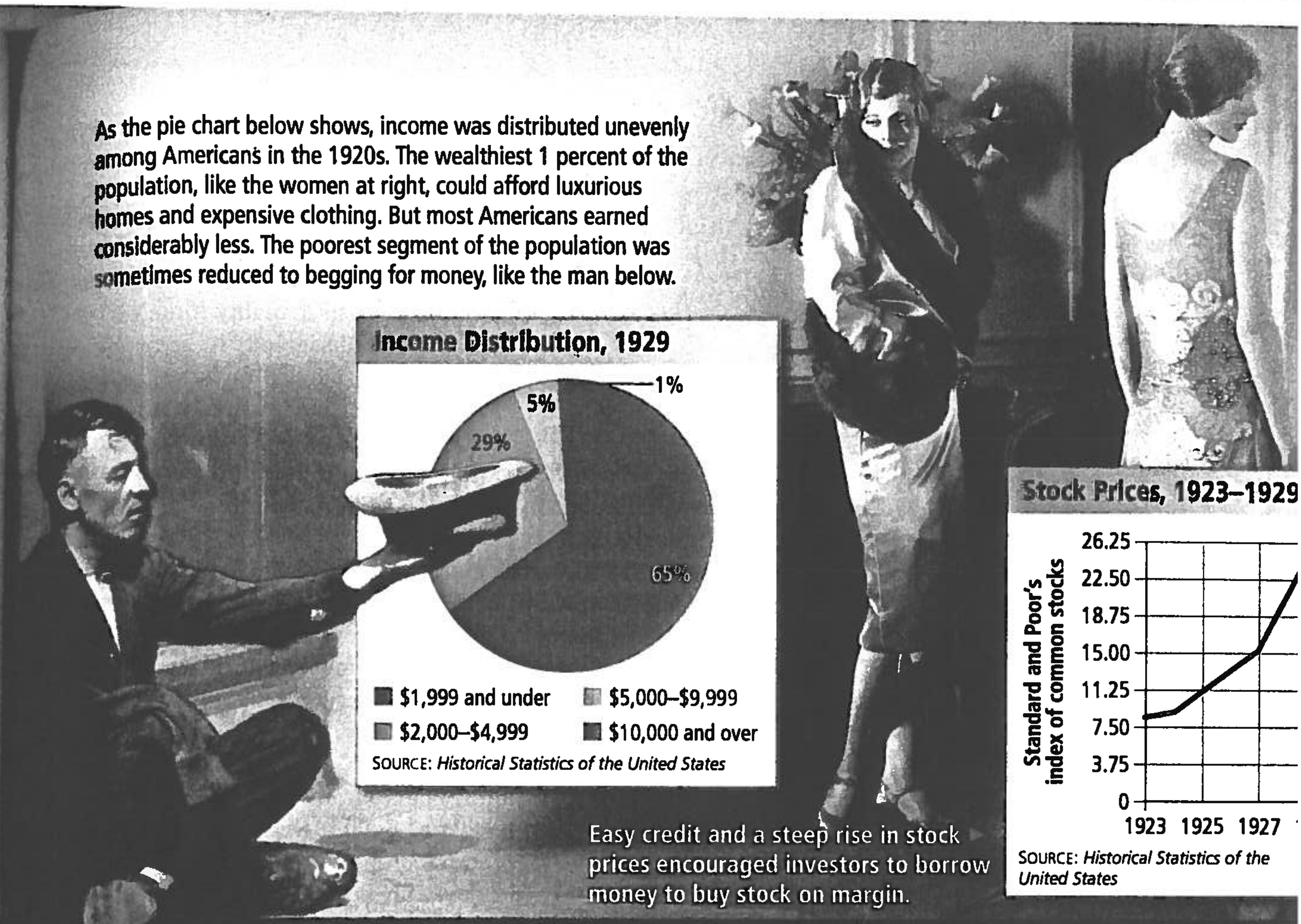
▲ American consumers racked up more than $6 billion of debt by 1929—more than double what they owed at the beginning of the decade.

American industries. They lived largely on credit from month to month, often teetering on the brink of financial ruin. Any downward slide in the economy was likely to hit America's struggling farmers first and hardest.

Wealth Is Distributed Unevenly Unlike farmers, industrial workers participated in the great national success story. During the 1920s, their wages rose steadily, as did their disposable income. Many purchased Model T Fords along with a variety of other consumer products. Though they were certainly not wealthy, industrial laborers were in a better financial position than their fathers had been a generation before.

But the problem was that while wages rose gradually, worker productivity increased astronomically. Between 1923 and 1929, output per person-hour jumped 32 percent, but workers' wages inched up only 8 percent. During that same period, corporate profits from worker output skyrocketed 65 percent. All these figures pointed to the fact that during the 1920s, the rich became much, much richer, while industrial workers simply became less poor. In few periods of the country's history have so small a number of rich Americans dominated such a large percentage of the country's total wealth. In 1929, for example, the wealthiest 1 percent of the population earned about the same amount of money as the bottom 42 percent.

This uneven distribution of the nation's wealth created economic problems. More than 60 percent of all American families had yearly incomes of less than $2,000 per year. Twenty-four thousand of the country's wealthiest families enjoyed annual incomes of more than $100,000, which was 50 times more than what most families were earning. But these wealthy families did not eat 50 times more food than lower-income families. The wealthiest households did not



As the pie chart below shows, income was distributed unevenly among Americans in the 1920s. The wealthiest 1 percent of the population, like the women at right, could afford luxurious homes and expensive clothing. But most Americans earned considerably less. The poorest segment of the population was sometimes reduced to begging for money, like the man below.

Easy credit and a steep rise in stock prices encouraged investors to borrow money to buy stock on margin.

Thinking Critically

1. **Make Generalizations** Is it fair to suggest that th American economy stood "on thin ice" in 1929? Wh or why not?
2. **Analyze Costs and Benefits** How did easy credit and buying stock or margin provide both costs and benefits to the U.S. economy?

purchase 50 times more automobiles or radios or ovens. The rich undoubtedly spent a lot on consumer products. The problem was that the wealthiest few did not buy enough to keep the economy booming.

A healthy economy needs more people to buy more products, which in turn creates even more wealth. In this way, a healthy economy avoids underconsumption that can limit economic growth. The uneven distribution of wealth in the 1920s pointed to an uncertain future for the American economy.

From the overproduction of the struggling farmer to the underconsumption of the lower-income industrial worker, deep-seated problems created economic instability. Too many Americans did not have enough money to buy what they needed or wanted.

Easy Credit Hides Problems For a time, the expansion of credit partially hid this problem. Americans bought automobiles, appliances, radios, and other goods on credit. Using the installment plan, they paid a small percentage down and the rest over a period of months or years. By the end of the decade, 80 percent of radios and 60 percent of cars were purchased on installment credit. Americans even bought stock on credit, making such stock purchases on margin. Every year, Americans accumulated more debt. In the past, they had feared debt and put off buying goods until they had the cash to pay for those items. However, easy credit changed this behavior during the 1920s. The growing credit burden could mask the problem of Americans living beyond their means for only so long before the economy imploded.

✓ **Checkpoint** **What economic problems lurked beneath the general prosperity of the 1920s?**