The Panic Spreads
The sudden collapse of stock prices sent brokers and investors into a panic throughout New York's financial district and across the country. A cartoonist for the *New York World* captured the feelings of many Americans in the aftermath of the Great Crash.

The Stock Market Crashes

By 1929, some economists observed that soaring stock prices were based on little more than confidence. Prices had no basis in reality. Although other experts disagreed, it became clear that too much money was being poured into stock **speculation.** Investors were gambling, often with money they did not even have, on stock increases to turn quick profits. If the market's upward climb suddenly reversed course, many investors would face economic devastation.

On September 3, 1929, the stock market began to sputter and fall. Prices peaked and then slid downward in an uneven way. At the end of October, however, the slide gave way to a free fall. After the Dow Jones average dropped 21 points in one hour on October 23, many investors concluded that the boom was over. They had lost confidence—the very thing that had kept the market up for so long.

The next day, October 24, came to be known as Black Thursday. With confidence in the stock market failing, nervous investors started to sell. Stock in General Electric that once sold at $400 a share plunged to $283. Across the United States, investors raced to pull their money out of the stock market. On October 29, **Black Tuesday,** the bottom fell out. More than 16 million shares were sold as the stock market collapsed in the Great Crash. Billions of dollars were lost. Whole fortunes were wiped out in hours. Many speculators who had bought stock on margin lost everything they had. President Hoover tried to soothe Americans by insisting that the "business of the country is on a sound and prosperous basis." But by November 13, the Dow Jones average had dropped like a brick from its September high of 381 to 198.7. The Great Crash represented another hallmark of the nation's **business cycle,** which explained the periodic growth and contraction of the economy.

✓ Checkpoint **What happened on October 29, 1929?**

The Great Depression Begins

The stock market crash marked the beginning of the **Great Depression,** a period lasting from 1929 to 1941 in which the economy faltered and unemployment soared. Though it did not start the depression by itself, the crash sparked a chain of events that quickened the collapse of the U.S. economy.

The Banks Collapse One of the first institutions to feel the effects of the stock market crash was the country's banking system. The crisis in confidence continued as frightened depositors feared for their money and tried to withdraw it from their banks. Few banks could survive a sustained "run" of requests by depositors for their money. In 1929, 641 commercial banks failed. A year later, 1,350 failed. And a year after that, 1,700 went under. By 1932, many Americans believed that no banks would be left standing.

Another cause of many bank failures was misguided monetary policy. During the 1920s, the Federal Reserve, which regulates the amount of money in circulation, cut interest rates to stimulate economic growth. But in 1929, worried about investor overspeculation, the "Fed" limited the money supply to discourage lending. As a result, there was too little money in circulation to help the economy after the stock market crash. When plummeting stock prices sent investors to the banks to secure whatever hard money they had left, the banks were cleaned out of currency and forced to close.

Businesses Close and Unemployment Rises Banks were not the only institutions to face the harsh financial realities of the depression. The collapse of stock prices, combined with reduced consumer spending, spelled trouble for American businesses. Business leaders believed that the survival of their companies depended on production cutbacks, to maintain price levels, and layoffs, to reduce payroll. While their stocks were still falling, companies began closing plants and forcing workers onto the growing lists of the unemployed. In August 1931, Henry Ford closed several of his Detroit automobile factories, putting nearly 75,000 people out of work.

Like a snowball rolling down a hill, the problem of production cuts kept getting bigger and bigger. As businesses closed plants and fired workers to save money, more Americans lost their jobs. As unemployment grew and incomes shrank, consumers spent less money. So businesses cut production even more, closing more plants and firing more workers. By 1933, nearly 25 percent of all American workers had lost their jobs.

Tariffs Add to the Woes Hoping to reverse the downward slide, the government moved to protect American products from foreign competition. In June 1930, Congress passed the **Hawley-Smoot Tariff,** which raised prices on foreign imports to such a level that they could not compete in the American market. The tariff inspired European countries to retaliate and enact protective tariffs of their own.

Far from solving the problems of the depression, the Hawley-Smoot Tariff added to them. At a time when American manufacturers and farms had a glut of unsold products, the international move toward high protective tariffs closed markets. This closure was not just harmful to American producers. It was equally disastrous to the global economy. The ripple effect caused by the Hawley-Smoot Tariff helped to destroy international trade.

The Depression Goes Global The Hawley-Smoot Tariff was only one of the causes of a depression spreading across the globe. As we saw earlier, the European problems of reparation payments, war debt payments, and international imbalance of trade had already created a shaky economic structure. In the early 1930s, the structure collapsed. Germany ceased their reparation payments, and the United States agreed to suspend France and Britain's war debt payments. The international economy had largely been funded by American loans to Europe, but the crisis in the United States drastically curtailed those loans. As a result, European nations

Banks Fail

In 1931, more than 1,500 banks ran out of money and closed their doors. Depositors lost untold savings. Here, a crowd gathers outside the closed doors of a bank in New York City. *How might Americans react today if hundreds of banks failed?*