



The Great Depression

“Cracks in the Foundation”
Other Identified Causes



Cracks





Unequal Distribution of Wealth

- The top 1% of the population had income 650% greater than the bottom 11% of the population
 - Concentrated wealth in hands of few
 - Economy dependent on high investment or luxury spending
 - Dependent on fluctuation
 - Less stable than necessities spending
 - Investment and spending collapsed.



Unequal Distribution of Corporate Power

- Consolidations and mergers took toll
 - Many competitors merged during WWI
- 1929:
 - 200 largest corporations controlled 50% of corporate wealth
 - If a few companies go under-economy suffers



Bad Banking Structure

- No federal restrictions on banks
 - New banks had no restrictions on start-up capital or reserves
 - Most banks were insolvent
 - Between 1923-1929 two closings per day
 - Prosperity covered up flaws in system



Foreign Balance of Payments

- U.S. turned creditor nation from WWI
 - We were owed more money than we owed to other nations
- Payments demanded in gold bullion
 - World's gold supply limited
 - We controlled the majority anyway
- Payments could be made in goods and services
 - High tariffs hurt this (Hawley-Smoot Tariff)
 - Protectionism hurt exports; countries couldn't buy our goods



Limited or Poor State of Economic Intelligence

- **Laissez-faire still believed by Hoover**
 - **Belief in self-adjustment**
- **Hoover:**
 - **Asked for voluntary measures**
 - **Hold down production**
 - **Increase employment**
 - **Balance Budget**
 - **Belief economy would bounce back**
 - **BUT:**
 - **No tax cuts allowed**
 - **No increase in government spending could happen**
 - **Insisted on gold standard**
 - **Prevention of inflation.**