

5 Causes of The Great Depression

What caused the Great Depression, the worst economic depression in US history? It was not just one factor, but instead a combination of domestic and worldwide conditions that led to the Great Depression. As such, there is no agreed upon list of all its causes. Here instead is a list of the top reasons that historians and economists have cited as causing the Great Depression. The effects of the Great Depression were huge across the world. Not only did it lead to the New Deal in America but more significantly, it was a direct cause of the rise of extremism in Germany leading to World War II.

1. Stock Market Crash of 1929 - Many believe erroneously that the stock market crash that occurred on Black Tuesday, October 29, 1929 is one and the same with the Great Depression. In fact, it was one of the major causes that led to the Great Depression. Two months after the original crash in October, stockholders had lost more than \$40 billion dollars. Even though the stock market began to regain some of its losses, by the end of 1930, it just was not enough and America truly entered what is called the Great Depression.

2. Bank Failures - Throughout the 1930s over 9,000 banks failed. Bank deposits were uninsured and thus as banks failed people simply lost their savings. Surviving banks, unsure of the economic situation and concerned for their own survival, stopped being as willing to create new loans. This exacerbated the situation leading to less and less expenditures.

3. Reduction in Purchasing Across the Board - With the stock market crash and the fears of further economic woes, individuals from all classes stopped purchasing items. This then led to a reduction in the number of items produced and thus a reduction in the workforce. As people lost their jobs, they were unable to keep up with paying for items they had bought through installment plans and their items were repossessed. More and more inventory began to accumulate. The unemployment rate rose above 25% which meant, of course, even less spending to help alleviate the economic situation.

4. American Economic Policy with Europe - As businesses began failing, the government created the Smoot-Hawley Tariff in 1930 to help protect American companies. This charged a high tax for imports thereby leading to less trade between America and foreign countries along with some economic retaliation.

5. Drought Conditions - While not a direct cause of the Great Depression, the drought that occurred in the Mississippi Valley in 1930 was of such proportions that many could not even pay their taxes or other debts and had to sell their farms for no profit to themselves. The area was nicknamed "The Dust Bowl." This was the topic of John Steinbeck's *The Grapes of Wrath*.