

19. Causes of the Great Depression (1929)

Frank is walking through the hallway at the end of the school day as Herbie sprints up from behind him and grabs his arm. Herbie can barely catch his breath.

Herbie: Dude! Did you hear? The stock market dropped three hundred points today. It crashed! We're going into another Great Depression!

Frank: *(sarcastically, raising his eyebrows)* Seriously?

Herbie: Yeah, man! Three hundred points! Go to the bank and get all your money, now!

Frank: No, I mean, are you seriously worried?

Herbie: I don't know why you're not freaking out! There could be millions of jobless people because of this, even worse than the Great Recession that we lived through.



Frank: OK, let's start right there. During this recent Great Recession, the unemployment rate was usually right around ten percent. So, one out of every ten people that wanted a job didn't have a job. Any guess for the Great Depression unemployment?

Herbie: Wow, ten percent doesn't sound all that bad, but I've heard that this was basically the end of the world. Great Depression unemployment, *(thoughtful pause)* twenty percent?

Frank: Actually, yeah, you're pretty close. During the Great Depression unemployment hovered around twenty percent, with a maximum of around thirty percent, but most likely neither the thirty percent, or our more recent ten percent, counts the millions of millions of people that gave up trying to get jobs.

Herbie: Wow, so that means that at least one out of every four people that wanted a job didn't have a job. That seems a lot more serious than this recent one.

Frank: Ehh, depends who you are, I guess. Anyway, that was one of the other causes of why the Great Depression went on for 12 years. If people can't work, they can't buy things-

Herbie: And if people can't buy things, then companies can't make money and give people jobs.

Frank: Exactly. It was kind of a never-ending cycle of unemployment. There was another cycle that some people might point to as a cause of the Great Depression, or at least why some people may have expected a depression at that time.

Herbie: Another cycle? So you mean some people could have predicted the Great Depression, and even the Great Recession.

Frank: Yep. In fact, some people did predict the Great Recession. It's called the Business Cycle or Economic Cycle. Sometimes businesses are making money because people are buying things, sometimes they are losing money because people can't buy things.

Herbie: Oh yeah, I've heard of this. They're not always called depressions or recessions either. Sometimes they're called panics or crises.

Frank: You know it. It's kind of like the saying, "What goes up must come down."

Herbie: And right before the Depression and Recession everything was up; people were buying things and businesses were making money. So we have the Business Cycle as a long-term cause and unemployment as a short-term cause. You mentioned there were other causes of the Great Depression?

Frank: Yeah, you ever seen your parents use a credit card?

Herbie: Heck yeah! They just bought an eight thousand dollar living room set. (shocked) Credit cards were a cause of the Great Depression?!

Frank: Not credit cards exactly, but credit. People would buy things without having the money to pay for them right away. Instead, the company would pay for it for the person by using credit. So, if the company suddenly decided they wanted their money-

Herbie: -then the person would have to pay it right away. Yikes. So if the company gave out too much credit, then couldn't get people-

Frank: -potentially unemployed people-

Herbie: -to give them the money for their stuff, then the company went out of business.

Frank: And this didn't just happen with individuals, it happened with countries. America loaned out billions of dollars to countries for World War One.

Herbie: So then other countries owed us money, and from what you're saying I'm guessing these countries didn't or couldn't pay us back. Which means those countries went bankrupt trying to pay us, and America lost money when they couldn't pay us.

Frank: Right on, Herb.

Herbie: So what was the final cause of the Great Depression?

Frank: Well, it's by no means the final cause, there were a couple of others, but I don't have time for that right now, so let's wrap it up with what we started with: the stock market, and this actually goes right in line with the idea of credit.

Herbie: What?! Now you're going to tell me that people were investing with credit?

Frank: You're darn right. They bought everything else on credit, so why not stock? It's called buying on expected returns. You assume that your first stock is going to make five hundred dollars-

Herbie: -so you buy another stock with five hundred dollars worth of credit?

Frank: Yep, and if your first stock unexpectedly ends up losing money, you have no money to pay, so both you and the company lose money.

Herbie: Jeez. Well, we'd better get to work at Burger Empire so we can pay off our credit card balances, hey?

Frank: Your credit card balance. I pay with debit.