Name _____ Date _____

The Great Depression and the New Deal: Causes, Debates and Results

Directions: Read the passage about the Great Depression and the New Deal. Then answer each question.

The Great Depression and the New Deal

Explaining the Great Depression

The Great Depression was the worst economic collapse in American history. From 1929 to 1933, output and prices fell and thousands of businesses closed. By 1933, about one worker in four had no job. Historians and economists offer several explanations for the collapse. Most agree that no single cause tells the whole story, but they still disagree about how much each one mattered.

The best-known explanation begins with the stock market. In the 1920s, many investors bought stocks with borrowed money. Prices crashed in October 1929, and by the end of November stocks had lost about half their value. Yet few scholars today think the crash alone caused the Depression. The economy had already begun to slow that summer, and only about one household in ten owned stock. Many see the crash as a shock that wiped out wealth and shook confidence, making the downturn worse.

A second explanation points to the banks. From 1930 to 1933, about 9,000 banks failed. A failed bank could wipe out its customers' savings, so frightened depositors rushed to withdraw cash even from healthy banks. As banks collapsed, the supply of money shrank by nearly 30 percent, and prices and wages fell. In 1963, economists Milton Friedman and Anna Schwartz argued that the Federal Reserve, the nation's central bank, turned a recession into a depression by failing to stop the bank failures. Today many economists, including Federal Reserve leaders, accept that its mistakes deepened the Depression.

A third explanation stresses a collapse in spending. In the 1920s, a small share of families held a large share of the nation's wealth, many households bought cars and radios on credit, and farmers struggled for years with low crop prices. When incomes fell, families and businesses bought less, so factories cut jobs, which cut spending again. Economists who follow John Maynard Keynes put this fall in demand at the center of the story.

Other explanations focus on policy choices. Under the gold standard, many countries tied the value of their money to gold, which spread the crisis from country to country and made it hard to expand the money supply. Countries that left the gold standard earlier, such as Britain in 1931, generally recovered sooner. In 1930, Congress passed the Smoot-Hawley Tariff, which raised taxes on imported goods. World trade fell by about two-thirds between 1929 and 1934, but historians disagree about how much of that drop the tariff caused.

Franklin D. Roosevelt became president in March 1933 and launched the New Deal. A new agency, the FDIC, insured bank deposits, and only nine insured banks failed in 1934. The Civilian Conservation Corps and the Works Progress Administration hired millions of jobless Americans, and the Social Security Act of 1935 created old-age pensions and

unemployment insurance. Unemployment fell from about 25 percent in 1933 to about 14 percent in 1937, then rose to about 19 percent in a new recession in 1938. Full employment returned only during World War II. Economists still disagree about how much the New Deal sped recovery.

The Depression fell hardest on some Americans. On the southern Great Plains, drought and soil worn out by heavy plowing created the Dust Bowl. Hundreds of thousands of people from Oklahoma, Texas, Arkansas and nearby states moved to California, where many found only low-paid farm work. Between about 400,000 and 1 million people of Mexican descent left the United States for Mexico. Some were deported; others left under pressure from state and local officials or because jobs had vanished. Many were U.S. citizens, including children born in the United States. New Deal laws also left people out. The Social Security Act did not cover farm workers or household workers, jobs held by a large share of Black workers. Some historians argue that Southern members of Congress insisted on those exclusions; others point to the difficulty of collecting taxes from such workers.

1. According to the passage, which explanation of the Great Depression do few scholars accept on its own?

A. A collapse in spending led factories to cut jobs.

B. Bank failures from 1930 to 1933 shrank the nation's supply of money by nearly 30 percent.

C. The stock market crash of 1929 caused the Depression by itself.

D. The gold standard spread the crisis between countries.

2. Which evidence in the passage weakens the claim that the crash alone caused the Depression?

A. Many investors had bought stocks with borrowed money.

B. About one worker in four had no job by 1933.

C. The economy had already begun to slow in the summer of 1929.

D. Stocks lost about half their value by the end of November 1929.

3. Why, according to the passage, did depositors pull cash even from healthy banks?

A. They needed cash to pay the new Smoot-Hawley Tariff.

B. The FDIC had ordered every bank in the country to close.

C. They feared that a failed bank would wipe out their savings.

D. The Federal Reserve had made the money supply grow much too fast in 1930.

4. What did Milton Friedman and Anna Schwartz argue, as the passage reports it?

A. The Federal Reserve turned a recession into a depression by not stopping the bank failures.

B. The Smoot-Hawley Tariff was the single cause of the Depression in the United States and Europe.

C. The crash alone explains why the Depression lasted so long.

D. The New Deal had ended the Depression by 1937, before the new recession began in 1938.

5. Match each explanation of the Depression to the evidence the passage offers for it.
Write the letter of the matching answer on each line.

1. _____ Bank failures
2. _____ A collapse in spending
3. _____ The gold standard
4. _____ The stock market crash

Choices for question 5

A. Countries that left it earlier generally recovered sooner.
B. When incomes fell, families and businesses bought less.
C. Stocks lost about half their value by the end of November 1929.
D. About 9,000 banks failed from 1930 to 1933.
E. The Civilian Conservation Corps hired jobless Americans.

6. Fill each blank with the term from the word bank that the passage uses for it.

Word bank

Dust Bowl • tariff • recession • gold standard • New Deal

In 1930, Congress passed a _____ that raised taxes on imported goods. Drought and soil worn out by heavy plowing created the _____ on the southern Great Plains.

7. Which result of the New Deal does the passage present as a clear fact rather than a matter of debate?

A. The FDIC began insuring bank deposits.
B. New Deal programs did more for recovery than any other cause.
C. The New Deal brought back full employment by 1937.
D. The New Deal ended the Depression before World War II began.

8. What do the unemployment figures in the passage show about the years from 1933 to 1938?

A. Unemployment was much lower in 1937 than in 1933, then rose again in a new recession.
B. Unemployment rose every year until World War II began.
C. Unemployment stayed at about 25 percent through 1938.
D. Unemployment fell below 5 percent by 1937 and stayed at that level until World War II.

9. Which two of these matters does the passage describe as still debated?

☐ A. How much of the drop in world trade the Smoot-Hawley Tariff caused
☐ B. Whether unemployment reached about 25 percent in 1933
☐ C. Whether about 9,000 banks failed from 1930 to 1933
☐ D. Whether Britain left the gold standard in 1931
☐ E. How much the New Deal sped recovery

10. Which statement about the people of Mexican descent who left the United States in the 1930s does the passage support?

A. All of them were deported by federal immigration officials after hearings in federal courts.

B. Estimates run from about 400,000 to 1 million, and many were U.S. citizens.

C. None of them had been born in the United States or held citizenship.

D. Most of them left because the Dust Bowl had destroyed their farms.

11. How does the passage handle the question of why the Social Security Act left out farm and household workers?

A. It blames the exclusion on the Federal Reserve's mistakes.

B. It gives two explanations that historians offer and does not decide between them.

C. It states as fact that the workers themselves asked Congress to leave them out of the program.

D. It says the exclusion was a mistake that Congress fixed the next year.

12. Which statement best describes how the passage explains the causes of the Great Depression?

A. It argues that a single cause, the stock market crash of 1929, explains everything that followed in the 1930s.

B. It treats every explanation as equally weak and says the causes cannot be known.

C. It names only causes that came from outside the United States.

D. It lays out several causes, says no single one tells the whole story, and marks open questions.