The U.S. economy experienced a brief downturn when WW1 ended in November 1918, but rebounded quickly after Warren G. Harding was elected president in November 1920. For a decade, Americans of the lower and middle classes experienced rising wages and rising standards of living. By early 1930, however, the economy was collapsing. What happened?

The exact causes of the Great Depression remain debatable. The American economy had functioned well for a century and a half. Small crises, like an economic collapse in the 1870s, quickly self-corrected. But in 1913, the Federal Reserve system was created, and it prevented the self-correcting mechanisms of a free economy from preserving an equilibrium. The forces that would have made for small periodic crashes were pent up, waiting to explode into a major crash.

It is also debatable whether the stock market crash of October 1929 caused the Great Depression, or whether the onset of the Great Depression caused the stock market crash. Another factor was the implementation of tariffs: some economists hypothesize that they lowered exports and thereby harmed American manufacturing companies, creating unemployment. During the late 1920s, consumer debt increased significantly, making the economy vulnerable.

What caused the Depression is one question. What made it the “Great” Depression is another. The Depressions was made worse and longer by government intervention: When a government attempts to fix a situation, or help in some way, such efforts, no matter how well-intentioned, usually make the problem worse. After the onset of the Great Depression in late 1929 and early 1930, government’s efforts to fix it actually made it worse, year by year, until around 1937. People who could not pay the rent on their apartments, or pay the mortgage on their houses, became homeless. In the ultimate case of bad timing, a multi-year draught caused massive crop failures in much of the central U.S., causing the “Dust Bowl” — farmers whose land turned to worthless dust. These farmers then had to leave their homes, and with their families became homeless.

One of the few escapes for people during this difficult time was provided by the
movies: for only a few pennies, they could watch films, which — thanks to modern technology — now included sound. Radio was another escape: it broadcast not only music, but also dramas and news.

From March 1929 until March 1933, Herbert Hoover was president of the United States. He was the first president to face the challenges of the Great Depression. His first action was to ask industry leaders to refrain from laying off workers and refrain from cutting wages. Hoover wanted to avoid the “short-term pain” but he thereby prevented the “long-term gain.” Allowing the crash to quickly hit bottom would have allowed the economy to begin rebuilding sooner. Delaying the ultimate crash also delayed recovery.

In towns and cities, people stood in “bread lines” and “soup lines” to get free food when they could not afford to buy their own groceries. The Dust Bowl drought harmed the State of Oklahoma particularly. Many people left that state, traveling around the country looking for work and a place to live. They were called “Okies.”

The banking industry was also devastated. When everyone tries to withdraw her or his money from the bank at the same time, the bank will go out of business, and the people won’t be able to get their money: this is called a “run” on the bank. Many people, who’d done the right thing and saved their money responsibly, lost their life’s savings. Many banks went out of business, impoverishing both the people who’d worked in the bank and the people who’d owned the bank.

President Hoover wanted to help, but made mistakes: he allowed the government to try to fix the situation. He organized “public works” projects: the government would hire men for building and construction projects. He instituted the Reconstruction Finance Corporation, which made loans to businesses. He distributed “relief” funds – direct payments of cash from the government.

Hoover’s actions created two problems. First, they encouraged people to expect help from the government, and to believe that governments are capable of helping. Second, his actions undermined the economy’s ability to naturally self-correct: Hoover’s policies limited private-sector activity; government spending is not directed by the organic market forces of supply and demand. The influence of a free market directs money to where it is needed; the influence of government action directs money to where someone thinks it is needed.