When Prosperity Broke

Trace how economic instability changed the federal government's role.

USH.C.4 "Analyze the cycles of economic boom and bust of the 1920s and 1930s on the transformation of the United States of America's government and society. Examine the transformations between the World Wars. Explain how the era reflected change..."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB As you read, underline causes of economic instability, circle effects on people's lives, and write 1 beside Hoover's responses and 2 beside Roosevelt's responses.

From Easy Credit to Federal Action

1. In 1928, a family might buy a radio on installments, paying a little each month. Easy credit helped factories sell goods and made prosperity seem secure. Some investors also borrowed money to buy stocks, hoping rising prices would cover their loans. On farms, however, growers produced more crops than buyers wanted, so prices fell and debts grew. Under Presidents Harding and Coolidge, the federal government generally favored limited regulation of business. The Federal Reserve had been created to manage the banking system and influence credit, but widespread borrowing and stock speculation still left the economy vulnerable to a sharp reversal.

2. When stock prices plunged in 1929, borrowers who had bought shares on margin struggled to repay loans. The crash did not cause every problem by itself: falling farm income and fragile banks were already warning signs. As banks failed, depositors lost savings, businesses found it harder to borrow, and employers cut jobs. In a town with a closed bank, a factory worker might lose wages while a nearby farmer could no longer obtain a loan for seed. Overseas, debts from World War I linked economies; the 1930 Smoot-Hawley Tariff raised barriers to trade and added to the global strain.

3. President Herbert Hoover favored voluntary cooperation over direct federal aid to individuals, though he supported public works and later federal loans to troubled banks and businesses. For many unemployed Americans, these measures seemed too limited; makeshift settlements became known as Hoovervilles. After winning the 1932 election, Franklin Roosevelt expanded federal action through the New Deal. The FDIC insured deposits in participating banks, and the WPA hired workers for public projects. Social Security created old-age benefits and unemployment insurance. Supporters argued these measures restored confidence and offered protection. Critics warned that federal spending and authority had grown too large. Recovery remained incomplete through the 1930s.

2 ANSWER WITH EVIDENCE

Use the passage

1. How did two features of the 1920s economy make prosperity less secure than it appeared?

2. Trace how one bank failure could harm both a factory worker and a farmer.

3. How did Roosevelt's approach to the Depression differ from Hoover's approach?

4. Why might Americans have disagreed about the New Deal? Use one benefit and one concern from the passage.

3 YOUR TURN

Your own words

Imagine you advise a town in 1935 where a bank has closed and a factory has laid off workers. In five sentences, propose one historically plausible federal response and one local response, explain how each addresses a different problem, and weigh one possible criticism of your federal response.

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PART 1 · READ AND MARK

As you read, underline causes of economic instability, circle effects on people's lives, and write 1 beside Hoover's responses and 2 beside Roosevelt's responses. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	How did two features of the 1920s economy make prosperity less secure than it appeared?	**Borrowing to buy stocks left investors exposed if prices fell, while crop overproduction drove down farm prices and increased debt.**
2	Trace how one bank failure could harm both a factory worker and a farmer.	**A failed bank could make it harder for a business to borrow, leading to job cuts and lost wages for a worker. A farmer could lose access to a loan for seed.**
3	How did Roosevelt's approach to the Depression differ from Hoover's approach?	**Hoover favored voluntary cooperation and limited direct federal aid, although he supported public works and federal loans. Roosevelt expanded federal action through programs such as the FDIC, WPA, and Social Security.**
4	Why might Americans have disagreed about the New Deal? Use one benefit and one concern from the passage.	**Supporters could point to WPA jobs or insured bank deposits as benefits. Critics worried about increased federal spending and authority.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

I would request a WPA project to repair the town's streets and hire workers who lost their factory jobs. Their wages would help families buy necessities while the streets were repaired. Locally, neighbors could create an emergency grocery fund for households that cannot reach their savings after the bank closes. That fund would help families obtain food while they seek a safer place to keep their money. Critics might object that the WPA project costs federal money, but the jobs would meet an urgent need that the town cannot address alone.

Accept other passage-supported cause-and-effect chains and comparisons. For Part 3, accept plausible 1935 federal and local actions if each addresses a distinct problem and the response considers a specific criticism.