

# Top Five Causes of the Great Depression

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The [Great Depression](#) lasted from 1929-1939. What caused the Great Depression, the worst economic depression in the history of the United States? The truth is that is not possible to point to just one factor. Instead a combination of domestic and worldwide conditions led to the Great Depression. The effects of the Great Depression were detrimental 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](#).

It is not possible to give a definitive list of all the causes of the Great Depression. Here instead is a list of the top reasons that historians and economists have cited as causing the Great Depression.

Hulton Archive/Archive Photos/Getty Images

## 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.

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5 Causes of Great Depression

A crowd of depositors outside the American Union Bank in New York, having failed to withdraw their savings before the bank collapsed, 30th June 1931. FPG/Hulton Archive/Getty Images

## 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.



Unemployed men queuing for coffee and bread at a soup kitchen run by the Bahai Fellowship at 203 East 9th Street, New York, circa 1930. FPG/Hulton Archive/Getty Images



### 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.

Newton D. Baker Rails Against the Hawley-Smoot Tariff. Trade barriers raised by the Hawley-Smoot tariff bill extended and increased the depression, Newton D. Baker, former Secretary of War declared in Brooklyn, N.Y. address for the Roosevelt-Garner ticket at Arcadia Hall. The bill was a 'Declaration on War by the Republican Party against the rest of mankind,' Baker told 5,000 listeners. Bettmann / Getty Images



### 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 from foreign countries. The unintended consequence of this tariff was that less trade occurred between America and foreign countries. In addition, some countries retaliated economically against the US.

Florence Thompson with children during the Great Depression. Dorothea Lange/Stringer/Archive Photos/Getty Images

### 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*.

