

THE GREAT DEPRESSION

The Great Depression (1929-39) was the deepest and longest-lasting economic downturn in the history of the Western industrialized world. In the United States, the Great Depression began soon after the stock market crash of October 1929, which sent Wall Street into a panic and wiped out millions of investors. Over the next several years, consumer spending and investment dropped, causing steep declines in industrial output and rising levels of unemployment as failing companies laid off workers. By 1933, when the Great Depression reached its nadir, some 13 to 15 million Americans were unemployed and nearly half of the country’s banks had failed. Though the relief and reform measures put into place by President Franklin D. Roosevelt helped lessen the worst effects of the Great Depression in the 1930s, the economy would not fully turn around until after 1939, when World War II kicked American industry into high gear.

**THE GREAT DEPRESSION BEGINS: THE STOCK MARKET CRASH OF 1929**

The American economy entered an ordinary recession during the summer of 1929, as consumer spending dropped and unsold goods began to pile up, slowing production. At the same time, stock prices continued to rise, and by the fall of that year had reached levels that could not be justified by anticipated future earnings. On October 24, 1929, the stock market bubble finally burst, as investors began dumping shares en masse. A record 12.9 million shares were traded that day, known as “Black Thursday.” Five days later, on “Black Tuesday” some 16 million shares were traded after another wave of panic swept Wall Street. Millions of shares ended up worthless, and those investors who had bought stocks “on margin” (with borrowed money) were wiped out completely.

As consumer confidence vanished in the wake of the stock market crash, the downturn in spending and investment led factories and other businesses to slow down production and construction and begin firing their workers. For those who were lucky enough to remain employed, wages fell and buying power decreased. Many Americans forced to buy on credit fell into debt, and the number of foreclosures and repossessions climbed steadily. The adherence to the gold standard, which joined countries around the world in a fixed currency exchange, helped spread the Depression from the United States throughout the world, especially in Europe.

**THE GREAT DEPRESSION DEEPENS: BANK RUNS AND THE HOOVER ADMINISTRATION**

Despite assurances from President [Herbert Hoover](http://www.history.com/topics/us-presidents/herbert-hoover) and other leaders that the crisis would run its course, matters continued to get worse over the next three years. By 1930, 4 million Americans looking for work could not find it; that number had risen to 6 million in 1931. Meanwhile, the country’s industrial production had dropped by half. Bread lines, soup kitchens and rising numbers of homeless people became more and more common in America’s towns and cities. Farmers (who had been struggling with their own economic depression for much of the 1920s due to drought and falling food prices) couldn’t afford to harvest their crops, and were forced to leave them rotting in the fields while people elsewhere starved.

In the fall of 1930, the first of four waves of banking panics began, as large numbers of investors lost confidence in the solvency of their banks and demanded deposits in cash, forcing banks to liquidate loans in order to supplement their insufficient cash reserves on hand. Bank runs swept the United States again in the spring and fall of 1931 and the fall of 1932, and by early 1933 thousands of banks had closed their doors. In the face of this dire situation, Hoover’s administration tried supporting failing banks and other institutions with government loans; the idea was that the banks in turn would loan to businesses, which would be able to hire back their employees.

**FDR ADDRESSES THE GREAT DEPRESSION WITH THE NEW DEAL**

Hoover, a Republican who had formerly served as U.S. secretary of commerce, believed that government should not directly intervene in the economy, and that it did not have the responsibility to create jobs or provide economic relief for its citizens. In 1932, however, with the country mired in the depths of the Great Depression and some 13-15 million people (or more than 20 percent of the U.S. population at the time) unemployed, Democrat [Franklin D. Roosevelt](http://www.history.com/topics/us-presidents/franklin-d-roosevelt) won an overwhelming victory in the presidential election. By Inauguration Day (March 4, 1933), every U.S. state had ordered all remaining banks to close at the end of the fourth wave of banking panics, and the U.S. Treasury didn’t have enough cash to pay all government workers. Nonetheless, FDR (as he was known) projected a calm energy and optimism, famously declaring that “the only thing we have to fear is fear itself.”

Roosevelt took immediate action to address the country’s economic woes, first announcing a four-day “bank holiday” during which all banks would close so that Congress could pass reform legislation and reopen those banks determined to be sound. He also began addressing the public directly over the radio in a series of talks, and these so-called “fireside chats” went a long way towards restoring public confidence. During Roosevelt’s first 100 days in office, his administration passed legislation that aimed to stabilize industrial and agricultural production, create jobs and stimulate recovery. In addition, Roosevelt sought to reform the financial system, creating the Federal Deposit Insurance Corporation (FDIC) to protect depositors’ accounts and the [Securities and Exchange Commission](http://www.history.com/topics/securities-and-exchange-commission) (SEC) to regulate the stock market and prevent abuses of the kind that led to the 1929 crash.

**THE GREAT DEPRESSION: HARD ROAD TO RECOVERY**

Among the programs and institutions of the [New Deal](http://www.history.com/topics/new-deal) that aided in recovery from the Great Depression were the [Tennessee](http://www.history.com/topics/us-states/tennessee) Valley Authority (TVA), which built dams and hydroelectric projects to control flooding and provide electric power to the impoverished Tennessee Valley region of the South, and the Works Project Administration (WPA), a permanent jobs program that employed 8.5 million people from 1935 to 1943. After showing early signs of recovery beginning in the spring of 1933, the economy continued to improve throughout the next three years, during which real GDP (adjusted for inflation) grew at an average rate of 9 percent per year. A sharp recession hit in 1937, caused in part by the Federal Reserve’s decision to increase its requirements for money in reserve. Though the economy began improving again in 1938, this second severe contraction reversed many of the gains in production and employment and prolonged the effects of the Great Depression through the end of the decade.

Depression-era hardships had fueled the rise of extremist political movements in various European countries, most notably that of Adolf Hitler’s Nazi regime in Germany. German aggression led war to break out in Europe in 1939, and the WPA turned its attention to strengthening the military infrastructure of the United States, even as the country maintained its neutrality. With Roosevelt’s decision to support Britain and France in the struggle against Germany and the other Axis Powers, defense manufacturing geared up, producing more and more private sector jobs. The Japanese attack on [Pearl Harbor](http://www.history.com/topics/world-war-ii/pearl-harbor) in December 1941 led to an American declaration of war, and the nation’s factories went back in full production mode. This expanding industrial production, as well as widespread conscription beginning in 1942, reduced the unemployment rate to below its pre-Depression level.

When the Great Depression began, the United States was the only industrialized country in the world without some form of unemployment insurance or social security. In 1935, Congress passed the Social Security Act, which for the first time provided Americans with unemployment, disability and pensions for old age.