The Great Depression in the United States began in 1929 and ended in 1941. It was the worst economic crisis in the history of the U.S. The whole world was negatively impacted by the Great Depression. Below you will see the great depression facts, causes and the great depression timeline.

Before The Great Depression

During the 1920’s, often called the Roaring Twenties, the U.S. economy had an unprecedented economic boom. Things such as electricity, radio, telephone and cars were being produced for the masses. There was mass production in the manufacturing, telecommunications, movie and chemical sectors. Infrastructure was being built to support all of these new technologies. Much of the population moved into the cities to acquire jobs in these industries. Americans found themselves with ever increasing amounts of dollars to spend which was then invested in the stock market and deposited in to banks. With the supply of money growing rapidly, banks were opening up at the rate of 4 – 5 per day.

What Caused The Great Depression?

The Great Depression happened due to a number of reasons. It was created by a combination of a stock market crash, bad banking structure and tight monetary policy. This is why it lasted so long.

The stock market peaked on September 3, 1929 with a record close of 381.17. Trading volume was 444k shares. By the end of the same month, the market had fallen by 10% to 343. On Monday, October 29, on 16.4% shares traded, the markets fell 11.5%. By that time, the markets closed at 230.17 down 40% from its all time high. In that single day, investors lost 14 billion dollars and by the end of 1929, 40 billion dollars was lost. This crash put a lot of pressure on banks and caused a great deal of money to be taken out of the economy.

At that time, banks lent money to investors to buy stock. Nearly $4.00 out of every $10.00 that was borrowed from the banks was used to buy stock. Margin requirements were as low as 10% during the 1920’s. Banks were allowed to speculate and buy stocks for themselves. Because the capital requirements to start new banks were low, many banks were created during that time. Once the selling
began, more selling was needed to satisfy margin calls and liquidity requirements for banks. People feared that their bank would collapse since, at that time, there were no guarantees on cash at the bank. That started a massive run on the banks to pull money out. Some banks were not able to fulfill the requests for withdrawal and closed their doors to people. Lending for business and consumers was ground to a halt. More panic followed as people lost their money and banks collapsed. People then rushed to withdraw their money and this created a domino effect. At that time, paper money was backed by gold. People started putting money under their mattresses instead of risking putting it in the bank.

Federal Reserve’s Role during the Great Depression

Cycles of ups and downs in the economy are normal. Throughout our history, we have had many recessions. Bad monetary policy can turn a recession into a major depression. The government began to increase interest rates, in 1929, from 3.5% to 5%. Some believe this is what caused the recession to come about in August of 1929. The government failed to act to stabilize or increase the money supply during The Great Depression. In fact, the supply of money fell by 30% between 1929 and 1933. Prices for goods were allowed to drop and banks were permitted to fail. This led to deflation. The government failed to restore confidence in the banking system. They didn't engage in enough open market activities, such as buying up the bank loans to restore the banking system. Their mission at the time was to maintain the gold standard. That meant ensuring that there were sufficient gold reserves to meet the demands of the depositor, as well as ensuring that there was adequate demand for currency.

The Great Depression Facts, Effects and Events

During the Great Depression, the country was hit with an extremely large unemployment rate. By 1933, the unemployment rate had climbed from 3% to 25%. By 1932, over 13 million Americans had lost their jobs.

Between 1929 and 1932, incomes, on average, were reduced by 40%. Deflation took hold, reducing prices by 10% per year on goods. Foreclosures rose sharply. By 1934, nearly one-half of all residential loans were delinquent and over 1 million families lost their farms. In 1932 alone, 273,000 families were evicted from their homes. Between 1929 and 1932, construction of homes dropped by an incredible 80%.

The Great Plain States were hit even harder than other states. This is because they were hit by a severe drought. This is where the term “Dust Bowl” originated. Many companies were forced to close, due to the economic environment. Banks were closing at an alarming rate and in 1933 alone, more than 4,000 banks closed. By 1933, the GDP fell 33%. During the Great Depression, there were 2 million homeless people in the United States. The stock market hit a low in 1932 closing at 41.22, down 89.2% from its all-time high.

It is interesting to note that one industry actually did very well during this period of time. It was the Hollywood film industry. It is thought that people went to the movies because, for a brief time while at
the movie, they could forget their many hardships. Comedies were big at this time and the Three Stooges provided a great deal of entertainment for many. The Wizard of Oz was released during this period in 1939.

**Poor Family During The Great Depression**

**Policy Changes During The Great Depression**

The role of the United States Government changed dramatically during the Great Depression. In 1932, Congress passes the Glass-Stegall Act which bans any connection between commercial banks and investment banking.

In 1933 Franklin Roosevelt takes office. He enacts his New Deal legislation. The Federal Deposit Insurance Corporation is created to insure all deposits at banks. The U.S. goes off the gold standard that helped add a supply of money to the financial system.

In 1934, Congress passes the Securities and Exchange Act. This helped to police activities related to the selling of securities. The Trade Agreement Act was passed to help end the trade wars.

In 1935, the Social Security Act was established to give assistance to the unemployed, handicapped and elderly. The Banking Act was passed to strengthen the Federal Reserve System.

A Minimum Wage Bill was passed in 1938. This included implementing a 40-hour work week for workers of companies that participated in interstate commerce.

The demand this placed on the government created a need for a much larger government workforce. At the beginning of the Depression, there were approximately 553,000 civil employees on the government's payroll. By the time the Depression ended, there were more than 953,000 paid civil workers.
Families Had to Relocate to Find Jobs

What Ended The Great Depression

On December 7 1941, Japan attacked Pearl Harbor. The United States responded by borrowing over 1 billion dollars to build up its military. As a result, U.S. manufacturing jumps by 50%. In 1939, the GDP had started to grow again and the unemployment rate was falling. In 1939, the unemployment rates were at 17.2%. By 1942, the unemployment rate was under 5%.

A combination of government spending, prompted by World War II and monetary expansion is what ended the Great Depression.

The Federal Reserve and the government can put conditions in place that are optimal for economic growth but, ultimately, it’s the people that drive the economic growth, through innovation and growth in productivity. One can also conclude that this had some effect in ending the Great Depression. Innovation helps to increase demand for goods and growth in productivity helps to increase the output of goods.

Aftermath and Recovery

In the aftermath of the Great Depression, a lot of things changed. There were 10,000 banks that went out of business. Around one-half of all banks either closed or merged with other banks. The role of the Federal Reserve and government increased. Tighter regulations were put on financial markets and banks. The Federal Reserve shifted to a policy of maintaining high employment and fast growth.

The United States emerged from World War II as a super-power and maintained its status as the largest economy ever since.