The Great Depression (1929)

1. The 1920s are known as roaring 20s in the US as there was rapid economic expansion and the nation's wealth doubled. However, the stock market crash on New York Stock Exchange in October 1929 resulted in one of the greatest economic crisis in the US economic history. The major reason for the stock market crash was unmitigated speculation in absence of effective market regulation.
2. All savings had been invested into the stock markets. People from all walks of life had taken to stock markets for attraction of economic gains. Many had even taken loans from banks to invest in the stock market. This coupled with rapidly expanding economy resulted in rapid expansion of stock market and a bubble forming by August 1929.
3. But by then production had declined and unemployment was increasing and hence the stock market was not in sync with the real economy. Also the wages at the time were low, the consumer debt was high and even the agriculture sector was witnessing a fall in food prices. Banks had excess loans on their balance sheets.
4. In summer of 1929, there was a mild recession. The consumer spending decreased and unsold goods started piling up but the stock market continued expanding reaching new heights.
5. The crash in the stock markets came in October 1929. Millions of shares were sold in a short span and all savings were wiped out. Especially, those who had taken loans to invest were completely wiped out.
6. This led to declining consumer demand, decreased spending and decreased investments by factories who now laid off workers and reduced production. Simultaneously, the loan defaults began piling up and banks became stressed. The unemployment continued to rise in 1930 and 1931 and Industrial output halved in the same period. The number of homeless people increased and so did starvation. The farmers could not afford to harvest crops and let them rot.
7. Once the Banks began to fail the people queued up in front of the Banks to withdraw their savings and this run on the banks continued from 1931 to 1933 which made even more banks to fail. The Hoover administration gave loans to the banks but that did not help much. The idea of fiscal stimulus was not in vogue as the popular notion was that the State should not intervene in the markets.
8. **Franklin D. Roosevelt and his New Deal (1932)**
    1. He famously declared that the only thing we need to fear is the fear itself. He brought out a financial package and set of policies which are collectively known as the New Deal.
    2. The New Deal was based on the idea of State intervening in the market with Fiscal Stimulus i.e. huge spending by the State to revive demand in the economy. The idea behind this was that with the consequent economic growth the stimulus will pay for itself.
    3. To revive confidence among the people, he began his fireside chats where he would talk to the US public over radio to boost their confidence and gather support for government policies.
    4. To revive confidence in Banks, he declared a 4 day bank holiday. Meanwhile the congress passed a bill which allowed only financially sound banks to open.
    5. Further, a Federal Deposit Insurance Corporation was established to provide confidence to the people that their money in banks is safe. This would halt the run on the banks.
    6. To check market speculation and other malpractices, a market regulator in the form of Securities & Exchange Commission (SEC) was setup.
    7. For reviving demand in the economy, Tennessee Valley Authority was established which would construct dams and hydro power projects.
    8. Works Progress Administration (WPA) was setup to provide a permanent jobs programme i.e. the state took over the responsibility for providing jobs to those who enlisted in the programme. From 1935-1943 85 lakh people were provided jobs by WPA. Post 1939 when the WW2 began, the WPA focussed on military production and with excess demand created by the war, the private sector jobs also got a boost as the war machine came into full operation mode.
    9. Conscription (1942) further reduced unemployment. Hence it is said that the WW2 (or Hitler) helped in ending the depression.
    10. In 1935, a social security act was also passed which provided for social security measures like unemployment benefits, old age pension and disability benefit. Hence the welfare state arrived in the US due to the New Deal.