

## The Impact Of The Great Depression

### The Onset of the Great Depression

In 1929, the world experienced the Great Depression, which left a profound and devastating economic downturn that wrecked the global economy. The Great Depression was triggered by the stock market crash of October 1929, known as Black Tuesday.

After 9 years of economic growth and even better growth in the stock market, this crash marked the end of the Roaring Twenties and set off a catastrophic chain of events. Panicked depositors rushed to withdraw their savings, leading to bank runs. Many banks, already weakened by poor investments in the stock market and reduced consumer spending, were unable to withstand these runs and closed their doors. Without access to capital, businesses collapsed which led to massive unemployment and a period of severe financial distress.

While many politicians were figuring out how to revive the US economy, the government was left with another task: ensure something like this never happens again.

### The Response of the U.S. Government

In response to this financial disaster, the U.S. government, under President Franklin D. Roosevelt implemented the New Deal between 1933 and 1938. The New Deal provided a series of programs and reforms designed to revive the economy and prevent future depressions. A key component of the New Deal was banking reform, aimed at restoring public confidence in the financial system.

The most noteworthy reform during this period was the establishment of The Federal Deposit Insurance Corporation (FDIC) in 1933 as a part of the Glass-Steagall Act.

The primary purpose of the FDIC was to insure deposits in banks, providing a safety net for depositors. Initially, the FDIC insured deposits up to \$2,500, a figure that has increased over the years to now insure \$250,000 per account. This insurance helped to alleviate the fear of bank failures, as depositors knew that their money was safe even if their bank went under. This has also reduced the risk of bank runs because depositors are assured that the US government will foot the bill in the event of catastrophe.

### Impact of FDIC Insurance

The creation of the FDIC had a profound and immediate impact. Public confidence in banks was restored, stemming the tide of bank runs. By insuring deposits, the FDIC also encouraged savings and stabilized the banking system. This stability was crucial for economic recovery, as it ensured the availability of credit and facilitated investment.

Remember, banks need depositors' money to make loans. Banks do not just print money or ask for money from the government. As deposits grow, the bank can make more loans, which facilitates investment in homes and the overall economy.

The establishment of the FDIC marked a significant shift in how banking was perceived and conducted in the United States. It introduced an era of increased government oversight and regulation in the financial sector.

**What Did We Learn?**

The Great Depression was a watershed moment in economic history, leading to significant reforms in the banking sector, most notably the establishment of the FDIC. The FDIC's role in insuring deposits helped to rebuild and maintain public trust in the banking system, which was crucial for the recovery from the Depression and for the stability of the financial system in the decades that followed.

The FDIC continues to play a crucial role in maintaining public confidence in the U.S. banking system, especially during economic downturns, and the origins and legacy of the FDIC remind us not only of the importance of government intervention in times of economic crisis but also the need for ongoing vigilance to ensure the health and stability of the financial system.