

# 1929: FROM BOOM TO BUST

**THE LESSONS OF THE GREAT DEPRESSION ARE HELPING  
THE NATION DEAL WITH THE CURRENT  
RECESSION—AND AVOID ANOTHER ECONOMIC CALAMITY**

By Joseph Berger

**T**he recession gripping the nation today has made life hard for many Americans, with an unemployment rate of more than 9 percent, millions of people losing their homes due to foreclosure, and the auto and banking industries trying to recover with the help of an \$800 billion bailout by the federal government.

As bad as the economy is, however, it doesn't begin to compare with the misery of the Great Depression, at least not so far.

At the height of the Depression, which began after the stock market crashed in October 1929—80 years ago next month—unemployment topped 25 percent. More than 9,000 banks failed, wiping out the life savings of millions of Americans. Tens of thousands of farms and other businesses went bankrupt.

Beyond the grim statistics was the untold number of people who lost their dignity waiting on breadlines, clawing through garbage for scraps of food, selling apples on street corners, or living in makeshift shacks, as the nation sank into a decade of profound despair.

But out of that suffering came a sea change in the philosophy of the federal government. Washington's role in the economy—and in the daily lives of all Americans, in good times and bad—increased exponentially, with a host of social and economic programs that are still in place today, and helping to blunt the effects of the Great Recession in 2009.

What made the Depression such an exquisite insult was that it came after a prolonged period of prosperity. Recoiling

after the slaughter of World War I, Americans moved into the Roaring Twenties with a devil-may-care indulgence fueled by the promise of new technologies like the automobile and radio and by a firm—and, it turned out, naïve—belief in the stock market as a perpetual wealth-generating machine.

## THE STOCK MARKET CRASH

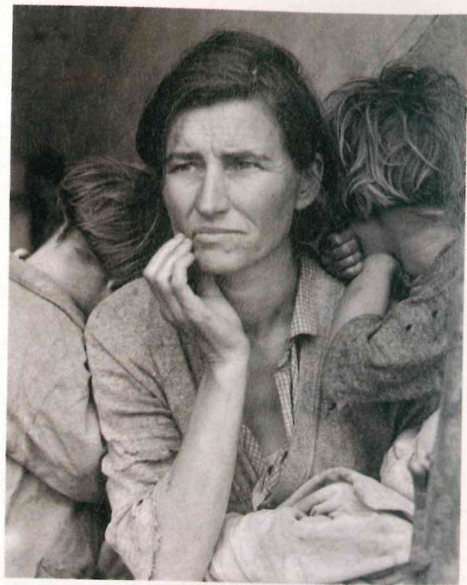
America's leaders reassured them that prosperity would last indefinitely, with Herbert Hoover telling the nation just before he was elected President in 1928 that unemployment was disappearing and that the United States was "nearer to the final triumph over poverty than ever before."

He made that remark about a year before the stock market crashed on October 28th and 29th of 1929, now known as Black Monday and Black Tuesday. Millions of middle-class investors were wiped out, many of whom had been buying stocks on margin—with borrowed money—in companies that were worth far less than their inflated share prices made them seem.

For several years before the market collapse, there were warning signs of economic trouble. As Europe recovered from World War I, it no longer needed to import as much American food, so U.S. farms—which employed 21 percent of the nation's workforce, compared with 2 percent today—began to suffer huge losses as demand for their products fell and prices plunged.

When farmers couldn't pay back their loans, banks began

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**KITCHENS** and breadlines could be found all over the nation during the 1930s. **MIGRANTS**, like this mother of seven in California, searched for work and food, 1936.



**THE NEW YORK STOCK EXCHANGE** after news spread of the market crash, October 29, 1929. A **"HOOVERVILLE"** shantytown, Washington state, 1940.



**THOUSANDS OF BUSINESSES**, like this shop in East Port, Maine, shut their doors during the Depression. **THE NEW YORK TIMES**, Page One, October 30, 1929.



PLUS  
BAMA'S  
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ARE WE  
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(From left) **PRESIDENT HOOVER** took a hands-off approach to the economy during the Depression, while **PRESIDENT ROOSEVELT** got Washington much more involved. As a result of New Deal programs, those who lose jobs today, like these **MEN IN MINNEAPOLIS**, are eligible for unemployment benefits, and most **WORKERS**, especially at the entry level, are guaranteed a minimum wage.



to collapse or just stopped making loans—the lifeblood of their business. Nervous depositors began lining up to withdraw their money, and these “bank runs” contributed to an epidemic of bank failures in the early 1930s (see chart).

It soon became a dizzying, self-sustaining downward spiral, as businesses devastated by the Wall Street crash were unable to borrow money from troubled banks and began laying off workers. As more Americans lost their jobs, they spent less and less, which led to more failed businesses and layoffs.

For those who lived through the Depression—when “Brother, Can You Spare a Dime?” became a national anthem of sorts—memories of grim times are indelible.

Sy Shulman, 83, recalls his mother throwing coins wrapped in newspaper down from the window of their apartment in Brooklyn, N.Y., to a man going building to building and playing the violin for change.

“I remember seeing people in the streets surrounded by their furniture,” he says. “They had been dispossessed for nonpayment of rent. Obviously there wasn’t the same kind of social safety net in those days.”

Thomas Moon, 87, a retired electrical engineer, grew up near Huntsville, Alabama. One of six children of a sharecropper, he remembers the family scavenging for food.

“You could take a walk out in the mountains,” he told *The New York Times*. “There was always something to eat—all kinds of berries—and in the winter you got pecans, hickory nuts, walnuts. We used to eat bullfrog; that was a delicacy.”

Shantytowns—derisively called Hoovervilles—sprang up in cities, as penniless families had nowhere to turn for shelter.

Outside the cities, farmers beset by a combination punch of calamities—an unrelenting drought on top of the steep drop in crop prices—couldn’t pay their mortgages and were forced off

their farms. Piling their mattresses and dressers onto weather-beaten trucks, they headed West, or anyplace rumored to offer prosperity, though prosperity usually eluded them. (There was certainly no shortage of mythic tales during the Depression, and the story of such farmers—embodied by the Joad family, who leave Oklahoma for California—was eloquently captured in John Steinbeck’s novel *The Grapes of Wrath*.)

Despite an economy in free fall, the Hoover administration stuck to the hands-off approach of both political parties at the time that left businesses, and people, to prosper or fail without the involvement of the federal government.

## THE NEW DEAL

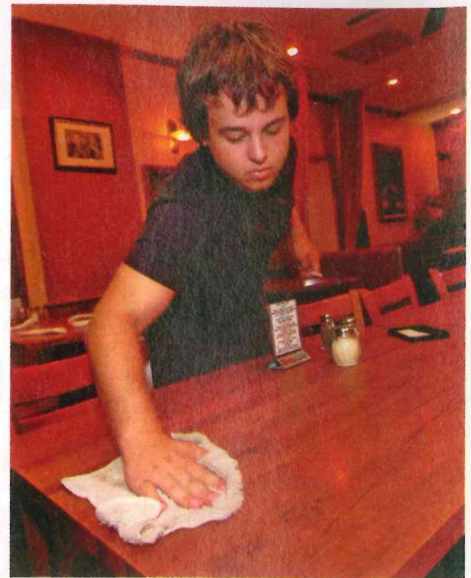
It may be hard to believe today, but in 1929 there was no unemployment insurance, no Social Security for the elderly or orphans, no government guarantees on bank deposits, virtually no regulation of stocks and other securities, and few protections to make sure workers received decent wages.

All those benefits were introduced starting in 1933 by the administration of a new President, Franklin Delano Roosevelt, in what became known as the New Deal (see box, p. 27). Roosevelt also stopped the bank runs by temporarily closing the banks and then insuring depositors’ money. He started public-works programs that hired the unemployed to build highways, bridges, and public buildings. And he stabilized crop prices for farmers.

It’s now a matter of debate whether the New Deal ended the Depression or whether it was America’s entry into World

THEN & NOW	How the current recession stacks up against the Great Depression.	
	GREAT DEPRESSION	2007-09 RECESSION
PEAK UNEMPLOYMENT	25%	10%
STOCK MARKET DROP	89%*	54%**
BANK FAILURES	9,000	85
GDP DECLINE	30%*	3%

\*FROM 1929 PEAK \*\*OCTOBER 2007-MARCH 2009  
SOURCES: DOW JONES; FDC; BUREAU OF LABOR STATISTICS; NATIONAL BUREAU OF ECONOMIC RESEARCH



War II in 1941 that got farms and factories humming again.

But Roosevelt created an atmosphere in which people felt the country was on the move and that government cared about their fate. He did so with wit and optimism, telling the nation: “The only thing we have to fear is fear itself.” With the “fire-side chats” he gave on the radio, he became the first President to speak directly to the people on a regular basis.

Economists consider the current recession, which began in 2007, to be the worst the nation has faced since the Depression. It was caused, in part, by a home-buying frenzy in which many people, responding to banks offering low interest rates, took out mortgages they couldn’t afford.

When housing prices began to fall and interest rates rose, millions of homeowners couldn’t pay back those mortgages. Banks stopped lending money to businesses that depended on them—from local restaurants and shops to giant car companies—which began laying off workers to cut costs; consumers stopped spending, and the spiral began.

By the beginning of 2009, people began to think the unthinkable—that another Depression was possible—leading to a host of stories in the media comparing President Obama’s challenges with Roosevelt’s.

But because of programs set in motion by Roosevelt—and a general acceptance over the last 80 years by both Democrats and Republicans of a larger government role in the economy, particularly in times of crisis—Americans are not nearly as bad off as they were in the 1930s.

There have been no real bank runs, largely because the Federal Deposit Insurance Corporation now guarantees deposits up to \$250,000. Unemployment has neared 10 percent, but all 50 states, with federal help, provide payments to the unemployed to tide them over for up to 79 weeks while they look for work. Social Security and Medicare provide both income and medical care to the elderly.

### LESSONS FOR 2009

Learning lessons from Hoover and Roosevelt, both President George W. Bush and President Obama took actions to pre-

vent the economy from caving in on itself, and Congress approved an \$800 billion bailout to prop up some big banks, and help companies like General Motors and Chrysler weather bankruptcies, stay in business, and keep hundreds of thousands of people working. In the last few months, the stock market has recovered a good deal of

the ground it had lost, and there are hopes that the economy may have stopped its downward slide.

While no one knows whether the country is out of the woods, Sanford Jacoby, an economic historian at U.C.L.A., says the Depression demonstrated that the government could play a constructive role in the economic life of the nation.

“The New Deal was a sea change,” he says, “in the way that politicians and the average person thought about the possibilities that opened up when government had a centralized involvement in the economy.” ●

## NEW DEAL LEGACIES

Many New Deal programs are softening the effects of the current recession.

### UNEMPLOYMENT INSURANCE

Benefits for up to 79 weeks to unemployed workers.

### MINIMUM WAGE

\$7.25 federal minimum for hourly workers; higher in many states.

### SOCIAL SECURITY

Retirement benefits for 31 million Americans.

### DEPOSIT INSURANCE

Bank deposits up to \$250,000 are guaranteed.

### WALL STREET REGULATION

To protect investors, the Securities and Exchange Commission oversees stock and bond markets.

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