Great Depression: Black Tuesday, Impact & Response
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Abstract. This paper will cover the cause of the Great Depression, including the stock market crash on Black Tuesday and how it affected stockholders, deflation on pricing of goods, fall of banks caused by increasing numbers of default loans, and bankruptcy of businesses. The end of the Great Depression will be explained with how the New Deal program and WWII war time economy helped soothen the US economy and hardships of the people, and how it finally ended after the US government minimize the control on the country’s economy. Impact of the Great Depression will also be examined. Including how the depression caused homelessness, poverty, unemployment, health concerns and loss of hope for millions of people at the time. Lasting impacts of the Great Depression also affected the future generations, including acts passed during the Great Depression that are still viable today, lasting landmarks, how the Great Depression left a psychological effect within past generation’s mind, and how the case set an example for historians and economists to study for preventing potential depression in the future.

Keywords: Great Depression, Black Tuesday, Deflation, Freddy D. Roosevelt, Unemployment.

1. Introduction

There was a time in history when one of the most developed countries in the world today, America, was at the bottom of the valley. Its citizens were forced to sleep on the streets or inside parks, struggling to find their next meal, properties were taken, hospitals received enormous amounts of patients, GDP declined while the unemployment rate was reported to be the all-time high, people lost hope living, and many committed suicides. This is the era of the Great Depression, an era of suffering. The spark of hope was not to be seen many years after the beginning of the crisis.

America had been through many economic crises, but the majority were marked as recessions, such as the Panic of 1907, the Great Recession of 2007-2009, and even the recent COVID-19 recession [1]. Recessions occur frequently throughout history, as there are 33 recessions but only 1 depression in the US since 1854, this is due to economists defining recessions as two consecutive quarters of decreasing GDP, which is considered as a normal part of the business cycle [2]. Whereas on the other hand, depression is rarer, as it only happened once. Depression is simply a more severe and detrimental recession, as the economists mark it as a yearly GDP drop of over 10%. However, depression brings significantly more impacts to the public than recession as shown in the Great Depression, such as the decrease in production rates, lower spending, diminishing income, stock market crash, mass unemployment, companies going bankrupt, etc [3]. Compared to the recession, which brings only a slight increase in unemployment rate, lower household incomes, and less profit for businesses. Not only the short-term effects, but depression also had a prolonged impact and set lessons for future generations, where recession could be recovered within a short period of time.

No lesson would be learned without knowing the major causes of the Great Depression. It is one of the arguable topics among historians and economists, not only because of the complexity of the event, but also due to the series of events leading to another, reacting like the chain effect. The economic boom in the 1920s not only boosted the American economy, but also boosted people’s confidence in investing in the stock market. This overhyped wave of investing spread across the country, people are willing to invest because their peers are doing the same, and some even gambled their future into the market. Another reason was the non-stop salary increase, making people believe that the economy is continuously expanding without an end, which also inflated Americans’ confidence level. In October 1929, the confidence level was at the peak, as well as the price per share in the market. The “bubble” was formed, many analysts predicted that the bubble was going to pop,
and the media spreaded the panic. Eventually on “black Tuesday”, October 29th, 1929, the stock market crashed. Economists marked this date as the worst day in the New York Stock Exchange (NYSE) history, record 16.4 million shares were traded on the day, a total of 14 billion dollars was lost, and Dow Jones dropped by 12% on the day [4]. The crash continued until July of 1932, when Dow Jones decreased by 90% compared to the peak value in 1929. The stock market crash led to the retreat of many investors from the market, and brought fear to the Americans. As a result of black Tuesday, the public’s spending power declined, forcing businesses to cut back products’ prices, general goods dropped by 30%, farm products dropped by 54%, and building materials dropped by 25% [5]. However, consumers did not have an active response to the new prices, general spending was still at the bottom of the hill, deflation and depression quietly loomed over the country.

The Great Depression had detrimental effects on the Americans, and it was not officially ended in the coming 10 years. The end of the Great Depression had been one of the controversial topics regarding how different economists and historians define the event. Many had said that the New Deal program proposed by the president Roosevelt D. Franklin (FDR) in 1933 was the start of closing the Great Depression, however, the economy at the time suggested differently. The U.S. economy was still flat, and the recovery was not potent enough to boost the economy back to pre-depression state. In 1933, when the economy was on the decline, GDP per capita was 47% lower than before the black Tuesday, but after applying the New Deal program for 6 years, in 1939, the GDP per capita only recovered to 17% below the pre-depression state [6]. Another factor that measures the Great Depression, the unemployment rate still averaged 14.6% by 1940.

Majorities had said that the Great Depression was ended by World War II (WWII). Although WWII solved the high unemployment rates and decline in GDP, it did not solve the problem from the root. War time is not compatible with time in peace, as the war created work opportunities for 12 million Americans, effectively solving unemployment. From 1942-45, America’s economy transferred from a free market economy to a war-driven economy. The scarcity of war resources drove Americans to be all out. Whereas even with tax rates as high as 94%, Americans are still willing to produce goods to supply the war, and support their nation. However, benefits driven by the war never exceed the benefit individuals make based on their own decisions. Economy collapsed again shortly after the war, as the people returned home from the war, and production slowly declined again. Government spendings dropped from 41% of the GDP in 1945, to under 15% of the GDP in 1947. Due to Americans getting out of war, mass unemployment happened again. At the time, a small 8-month recession hit America. In 1943-45, American GDP indicated that over 50% of the benefit from produced goods were spent in the war, causing services made by the New Deal programs founded by FDR to drop over 90%, stopping the New Deal program as the war started [7]. The hope sparked in 1945, when the government lowered tax rates, and lifted all wartime economic control. As the government shrank away from the economy, personal consumption rates and private investments thrived. Consumption grew by 12.4 percent in 1946, investment grew by 28.6 percent in the same year, while government spendings was severely decreasing. It was the government’s retreat from the economy that saved the Americans out of the depression, bringing the economy back alive, more prosperous than before.

2. Impact

The Great Depression had one of the biggest impacts on the US economy, including both the short-term effects and the long-term effects. This event impacted people all around the country, from factory workers to the president.

As previously mentioned, the Great Depression caused the Dow Jones index fell 90% between 1929 and 1932, personal and household incomes declined. This later led to poverty for the majority of the families. This is a time when families’ budgets were shallow, and businesses were forced to drop prices on consumer goods to keep the customer spending up, but still did not generate any spendings from consumers, which led to little to no profit for the businesses. Less profit for businesses
leads the mass population of Americans to be unemployed. At the time around the 1930s, most households only had one income, mostly husbands. This means that the 25% unemployment rate at the time would make a more significant impact than the 25% unemployment rate today, where most households have two or more incomes. In 1929, the economic output was reported to be around 105 billion dollars measured by the GDP, in the same year, one third of the American banks were corrupted due to mortgage owners unable to pay their loans to the creditors, causing bank loans to reach default state. GDP slowly declined over the next 4 years, by 8.5% in 1930, 6.4% in 1931, and 12.9% in 1932. The produce declined by more than half over four years of suffering, only leaving the country with 57.2 billion dollars worth of produce by 1933 compared to 105 billion in 1929. In 1933, the Bureau of Labor Statistics also reported that deflation had caused produced goods’ prices to drop by over 25%, compared to the prices in 1929; causing more businesses to go bankrupt.

The Great Depression pushed Franklin D. Roosevelt as the president of America. His Keynesian economics promised that the New Deal program would end the depression. The New Deal program served as a cushion system for the depression, slowing down the decline of GDP and slowly regenerating wealth. However, due to the government cutting down the budget for the New Deal Program in 1939 to prepare for the imminent WWII, depression trickled back. But the New Deal program did lower the unemployment rate and brought back part of the US economy, but it also brought huge amounts of US debts to the country. In 1933, debt was at 22.5 billion, and debt was at 27 billion in 1934 [8]. Because of this high level of debt, the government decided to rely on deficit spending and tax cuts, which later corrupted the economy even more. During the Great Depression, knowing the detrimental effect it had on the local US firms, the government made many trade barriers to protect local industries from unfair competition with foreign companies. As a result, other countries retaliated by creating trade barriers as well, pushing back the idea of nationalism, blocking the flow of goods, later causing world trade to decrease by 66% between 1929 and 1934.

The great depression not only brought unemployment to the Americans, but what’s more significant is how it brought hunger, homelessness, and hardship to millions of the American citizens. Due to unemployment, many Americans across cities were evicted from their homes for not paying loans, and ended up either on the streets, or in the parks. Others were forced to live in houses built from scraps of materials or broken cars. Quality of living was at the lowest, people had to dig through trash to find pieces of food to maintain their lives. In places where kitchens provide free or cheap food, there are usually immense numbers of people forming lines. It was a common theme in the 1930s where homeless people wandered around the streets, finding everything they could use, and seeking for the hope of survival, while the government only provided 2.39$ per week for each family. This was one of the darkest periods for the public, a time of bleakness.

Within the country, some groups of people faced especially challenging situations than others. African Americans and Latinos have higher unemployment rates and lower wages. Not only did they have to face the financial crisis, but they also encountered racial injustice. Finding a job is especially challenging due to competition with whites in a market with extraordinarily low numbers of opportunities. Employers would consider white races over colored when it comes to working opportunities, causing certain races to suffer even more than others. At the time, many Mexicans were deported from America by the government. Rural area citizens have the advantage of the ability to grow products to sustain their own families, whereas in the cities, citizens can not. However, many farmers lost their land due to failing to pay off the debt, and mortgage owners took their properties for the debt. Some women over the period of the Great Depression sewed clothes for a living, while the majority of them managed household budgets. As the author of Making Do: How Women Survived the ’30s said, “those days you did everything to save a penny”. Managing budgets became especially crucial during a time when everyone’s pockets are tight. When coming to employment for women, they also faced prejudice when employers would consider male employees over female employees due to gender inequality.

Over the long periods of unemployment, many people were discouraged from searching for a job. Many men left their families in search of working opportunities, however usually ended up on the
streets, struggling to survive once again. Poor quality of living and lack of health care led to many health issues for children, such as malnutrition and diet-related diseases like rickets. Education of children was also cut short due to the lack of government funding. Schools shortened school years; in 1933, 2600 schools shut down due to the depression, leaving 300,000 students out of school. Those that left school went into child labor, working for sweatshops under horrendous conditions seeking for a way of living. Due to long periods of suffering, many lost their hope of living. Between 1928-1932, suicide rate increased by more than 30 percent [9]. Mental hospitals received three times as many clients as pre-depression time. Many Americans made sacrifices that later impacted them in life, such as stopping going to doctors, quitting college, getting married, or having children due to the tight budgets at the time.

3. Policies

The New Deal are programs designed by president Franklin D. Roosevelt to restore the prosperity of the American economy by creating working opportunities and reshaping the economic structure. The government proposed a series of programs such as the CCC (civilian conservation corps), WPA (works progress administration), TVA (tennessee valley authority), SEC (security and exchange in commission), and others to provide hope for the general Americans. The New Deal also expanded the figure of the government within the public, and asked for the Americans to rely on the government instead of suffering independently through the depression. On March 4, 1933, president Roosevelt’s inauguration speech gave Americans confidence and promised the situation would get better. The next day, president Roosevelt closed all banks for four days to prevent people from withdrawing money, known as the Bank Holiday of 1933, and advocated people to put money back into banks. On March 9, Roosevelt’s Emergency Banking Act was passed to reorganize banks within the country. These two actions saved almost 75% of the banks from bankruptcy. TVA was created to build dams along the Tennessee river, and provide hydroelectric power for the poor local families, also creating working opportunities for the unemployed. The Agricultural Adjustment Act urged farmers to leave the field and stop producing farmed goods that already had an immense number of stocks unwanted by the customers, and stopping deflation on farmed goods. This act successfully raised prices on farm goods. June’s National Industrial Recovery Act allowed workers to petition and bargain for higher wages and better conditions, this allured many jobless people to be back into businesses. In addition to these acts, another 12 were passed to provide opportunities for the crowd. Works Progressive Administration (WPA) was created in 1935 to provide working opportunities. This program focused on building post offices, schools, highways, and parks; not only providing jobs, but also building the future of the country. The Social Security Act promised pensions for every American, and set up a program to aid the unemployed and those that are in need. Every American found there to be something beneficial from the New Deal program that could let them survive through the depression. President Roosevelt also promoted the benefit of the whole over benefit over individuals, where everyone is suffering from the depression, there should not be individuals making profit on other’s hardship [10]. The New Deal program successfully sparked hope among Americans, but was later diminished as the federal funding of the program was cut short due to the upcoming war.

The government at the time also called a series of acts in an attempt to reform the economical part of the country, and gain back the confidence of the citizens. Reconstruction Finance Corporation Act and the Banking Act of 1932 provided financial support to state and local governments and made loans to banks, railroads, mortgage associations, and other businesses. The Emergency Banking Act of 1933 aimed to give Americans confidence in putting their money back into banks. This act provided the president, and the secretary of the treasury with more regulatory power to the banks, attempting to save them from depression. This is still effective today, as the act gave the president the power to independently control the federal reserve at times of financial crisis, and the government could interpret with the banks. The act also provided confidence for the Americans, which remains until today. The Banking Act of 1933 prohibits commercial banks from engaging in the investment
business. It was enacted as an emergency response to the failure of nearly 5,000 banks during the Great Depression. This saved many banks from involving in risky deposits as the general market was crashing. The Banking Act of 1935 gave the Federal Reserve more power, such as the ability to control interest rates when people deposit at banks, and regulation of discount rates. The Gold Reserve Act of 1934 let the United States Department of Treasury confiscate all gold and gold certificates. This act banned all use of gold as currencies, and abandoned the gold standard. The above acts restored the hope of the Americans and influenced people from back then to now.

4. Discussion

Although the Great Depression had a detrimental impact on the economy in the 1930s, and did not recover for the upcoming 10 years, the Great Depression had also left numerous policies that still have benefits today, and presented a case for historians and economists to study.

As part of the New Deal program proposed by FDR with the original intention of creating working opportunities for the American general public, the Public Works Administration (PWA) built many of today's landmarks. Including the Chrysler Building, Rockefeller Center, and Dealey Plaza in Dallas. Bridges include San Francisco's Golden Gate Bridge, New York's Triborough Bridge, and the Florida Keys' Overseas Highway. Other Depression-era public works include LaGuardia Airport, the Lincoln Tunnel, and Hoover Dam. Also, three entire towns were constructed: Greendale, Wisconsin; Greenhills, Ohio; and Greenbelt, Maryland. Even though the Great Depression had gone into the past, and appeared inside our history textbooks, these historical landmarks will remain on the land that had previously suffered from the Great Depression, and remind people of the impact it had on America.

Many other programs and acts made during the depression-era also still have benefits in today’s society. The Banking Act of 1933 not only saved numerous banks from risky investments, but also established the Federal Deposit Insurance Corporation to secure savings American citizens made into banks, and gave the crowd confidence. This is still effective today as only 9 banks associated with the corporation had failed, and the insurance was originally limited to deposits up to 2,500 dollars, today, deposits up to 250,000 dollars are protected by the FDIC coverage [11]. The Federal National Mortgage Insurance was originally established in 1938 with the purpose of aiding private lenders by purchasing loans from them, so the lenders could fund new loans. In society today, this program helps support millions of people with housing purchases. The Security Exchange Act of 1934 established Security and Exchange Commissions to control brokerage firms, stock market, and other exchanges. The Security and Exchange Commissions still stands today with the purpose of educating buyers before their purchase. The Social Security Act of 1935 signed by FDR provided funds for those of the retired, inabilities, unemployed, and children in need. What the act left for people is the policy of social security, which provides benefits to over 63 million Americans today, including over 46 million senior citizens [12]. Other programs such as Tennessee Valley Authority, Soil Conservation Service, National Labor Relations Board, etc, not only provided hope for people in the Great Depression, but also supported millions of people’s quality of living in today’s society.

5. Conclusion

So, what had people brought out of the Great Depression? Did the Great Depression only impact us as an era of depression? Not really. The Great depression taught people a lesson about how to rely on the government, as the New Deal program provided numerous working opportunities, and gave people a chance to feed their family. However, the hopelessness people got from the depression never left their mind. The cause of the great depression served as a reminder for the baby boomer generation, and even some millennials to be fearful of the economy, and any prosperity in the economy should be considered and not overly participated. People that came out of the great depression would have clear financial goals, as the hardship through the Great Depression had taught them the experience of suffering from poverty. Many people showed kindness to those that also struggled to live during the
depression, this also lasted out of the depression, as it continues today. Many developed habits of thriftiness, the penny saving mindset influenced upcoming generations. Most importantly, the Great Depression set an example for historians and economists to analyze the cause of the case, and make preventions for the potential economic crisis in the future. The Great Depression gave Americans new habits, reshaped the next generation, while leaving precedents to warn the future generation.

References