

# The Great Depression and Recession

Learn about and compare the two greatest declines in the US stock market.

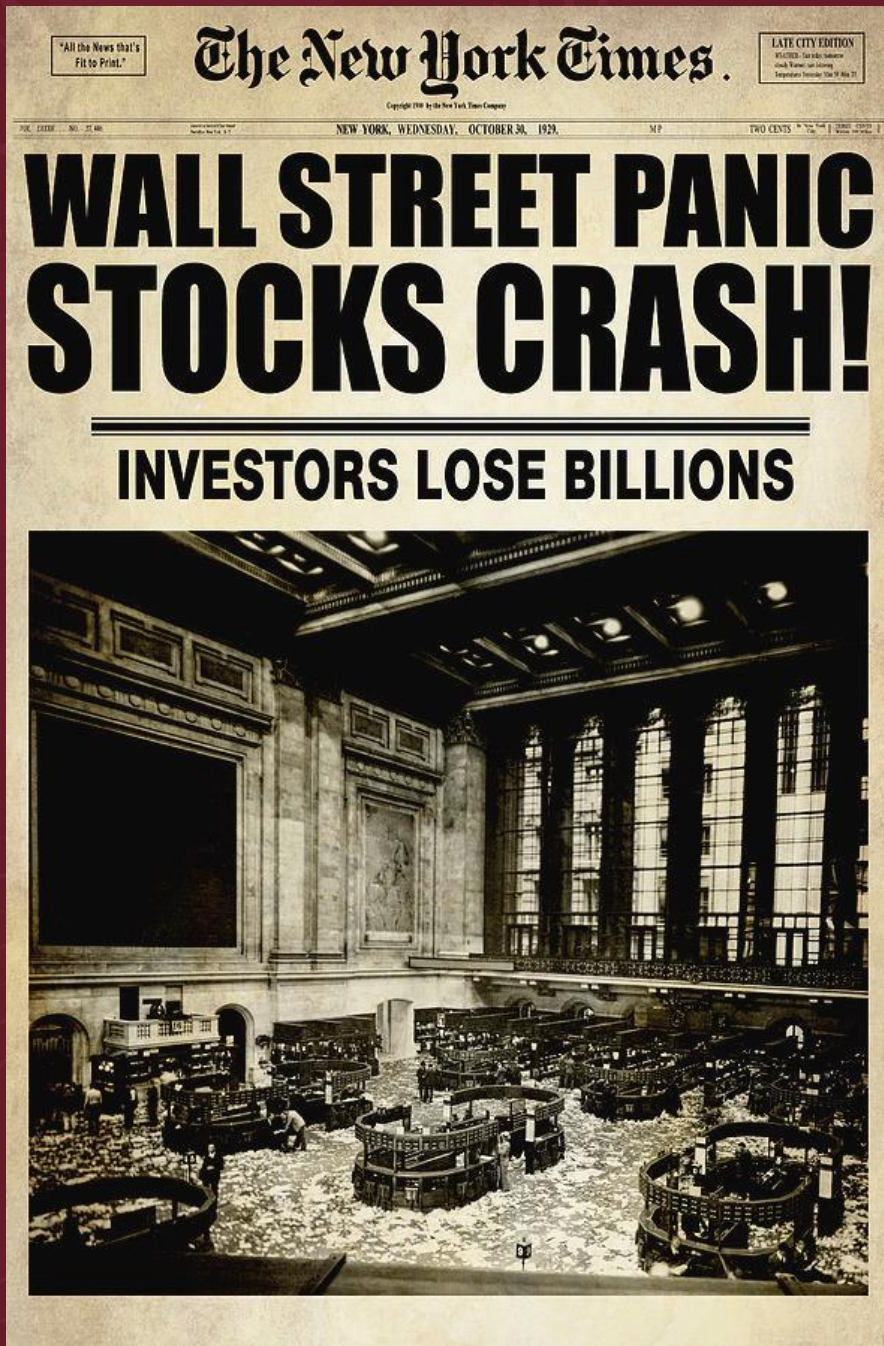


# The Great Depression

**Black Thursday** - Thursday, October 24<sup>th</sup>, 1929, is when panicked investors sent the Dow Jones Industrial Average plunging 11% at the open. Black Thursday began the Wall Street crash of 1929.

**Black Tuesday** - On October 29<sup>th</sup>, 1929, investors traded around 16 million shares on the New York Stock Exchange in a single day. Billions of dollars were lost, wiping out thousands of investors.

In the aftermath of Black Tuesday, America and the rest of the industrialized world spiraled downward into the Great Depression (1929-39), the deepest and longest-lasting economic downturn in the history of the Western industrialized world at that time.



## Just how big was the “crash” of October 29, 1929?

The simple answer? **Really BIG.**

- The value of the stock market had been steadily rising throughout the '20s. It had hit a truly exponential rate of growth by 1928.
- Between the end of 1928 and September of 1929, the value of the market doubled.
- The bubble was due to burst! Between Black Thursday and Black Tuesday, more than \$26 billion in stock value was lost.
- When the damage was tallied the day after Black Tuesday, brokers were astonished to discover that \$14 billion had been lost in one day.
- It would take 25 years for the market to regain the value it had in September of 1929.



# Timeline: How the crash began (1929)

**Oct. 24:** Black Thursday kicked off the stock market crash of 1929. Stock prices immediately fell 11%. Wall Street bankers bought stocks, so only 2% was lost by the time the market closed.

**Oct. 25-26:** Stocks gained 1% on Friday but lost 1% during a half-day of trading on Saturday.

**Oct. 28:** On Black Monday, stocks prices fell 13%.

**Oct. 29:** On Black Tuesday, the market lost another 12% as a record 16 million shares were traded. When banks intervened this time, they worsened the panic.

**Nov. 23:** The stock market hit bottom and began trading sideways (Sideways: When stock prices don't rise or fall a significant amount over an extended period).

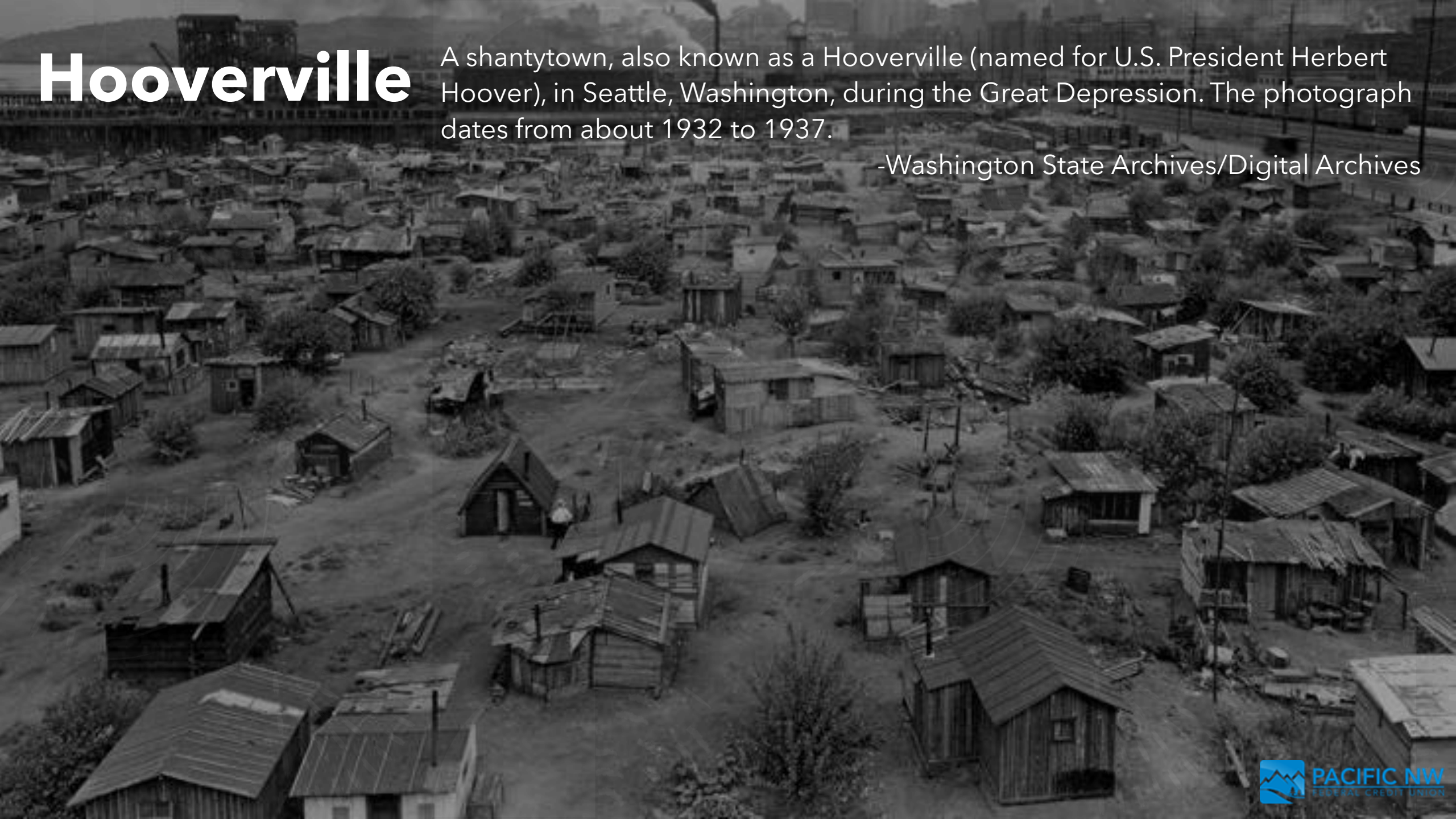
**December:** The unemployment rate was still just 3.2%. Since unemployment is a lagging indicator, it hadn't started to worsen yet. By September of 1932 unemployment would be around 24%.

- There were more than 650 bank failures in 1929, part of a trend of such failures throughout the 1920s. As banks failed, it reduced the money supply because there was less credit available. That meant each dollar was worth more.
- As the value of the dollar rose, prices fell, which reduced revenue for businesses. It also meant that debt cost more for lenders to pay back.
- This created a ripple effect of personal and business bankruptcies.

# Hooverville

A shantytown, also known as a Hooverville (named for U.S. President Herbert Hoover), in Seattle, Washington, during the Great Depression. The photograph dates from about 1932 to 1937.

-Washington State Archives/Digital Archives





# Portland Hooverville's



A collection of shacks made from scrap wood, car parts, corrugated tin and cardboard, the village existed on the west end of the Ross Island Bridge. (CITY OF PORTLAND)

Go to [https://www.oregonlive.com/history/2016/04/homelessness\\_portland\\_hoovervi.html](https://www.oregonlive.com/history/2016/04/homelessness_portland_hoovervi.html) for more images of Portland's Hooverville's

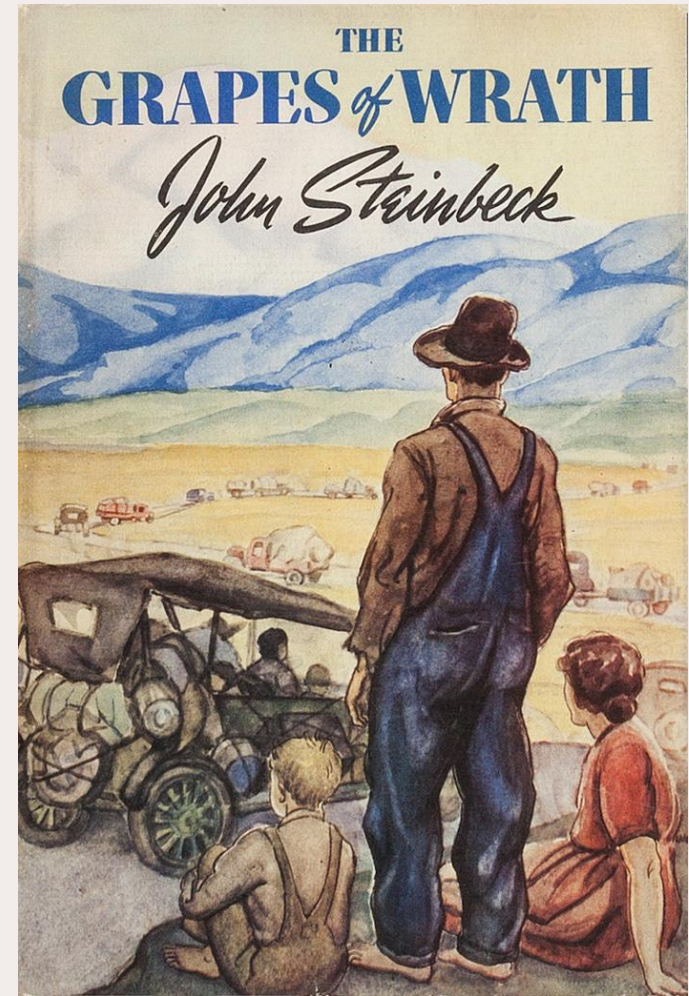


Grant Wood, American Gothic, 1930

# Famous art and literature from the Great Depression

# Grapes of Wrath

The Grapes of Wrath, by John Steinbeck, was published in 1939. It paints a picture of the harsh reality of the Great Depression and creates sympathy for the struggles of migrant farmworkers. The book is regarded as an American classic.





*Migrant Mother* is Dorothea Lange's famous photograph taken in Nipomo, California, in 1936, during the Great Depression.

*Library of Congress,  
Washington, D.C.*





The Great Depression ended in most affected countries by 1933, but many countries did not fully recover until the late 1930s or early 1940s.

# Recovery

**Unemployment numbers were a great indication economic recovery was underway.**

**Look at the chart:** In what year did unemployment return to pre-depression percent of people unemployed?

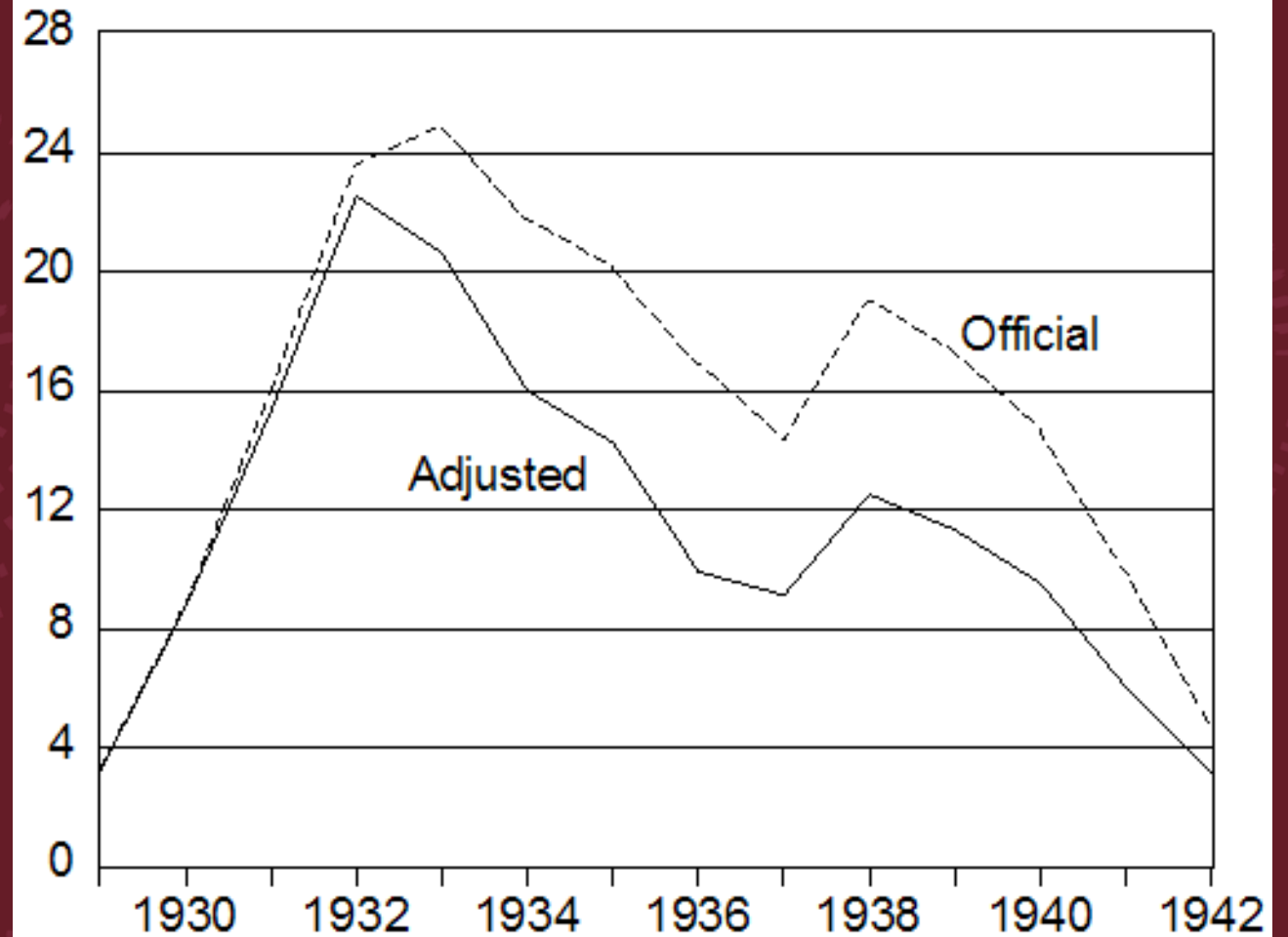


Figure 2. Unemployment rate, official and adjusted  
1929-42

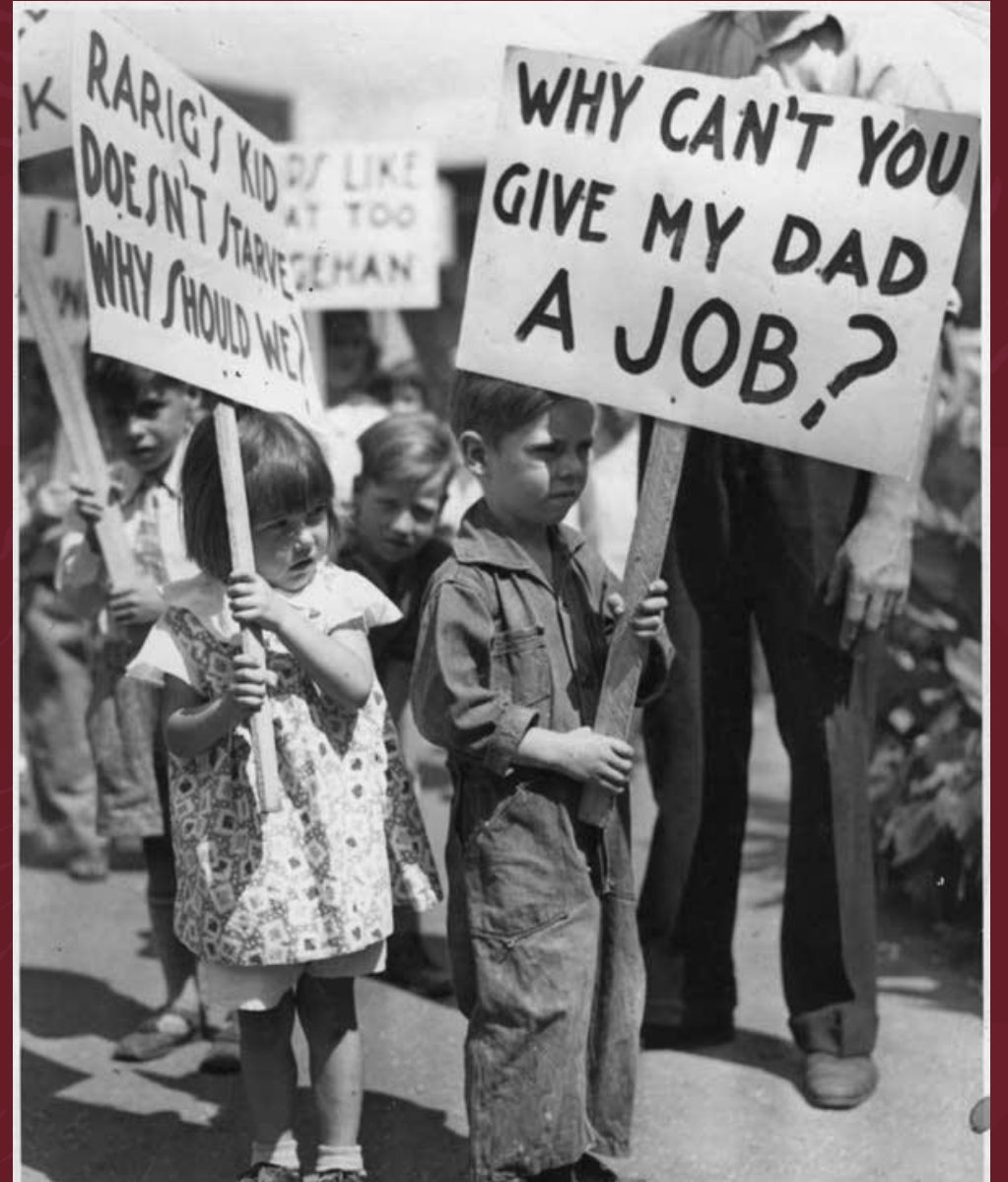


# Recovery

Since the depression hit worldwide, recovery happened differently and on a different timeline for countries across the world.

In the United States, recovery began but then another downturn hit the economy in 1937-38. Full economic recovery returned around 1942.

Among the factors that led to recovery were the abandonment of the gold standard and an increase in currency supply, increased government spending on jobs and social welfare programs, and, in the United States, increased military spending prior to World War II.



# Great Recession

The Great Recession, one of the worst economic declines in US history, lasted from December 2007 to June 2009.

The collapse of the housing market – fueled by low interest rates, easy credit, insufficient regulation, and toxic subprime mortgages – led to the economic crisis.



# Bankruptcies Begin

**April 2, 2007:** New Century Financial declares Chapter 11 bankruptcy. The company specialized in so-called **“subprime” mortgages, or home loans to borrowers with poor credit histories**, making \$60 billion in such loans in 2006 alone.

It attributes its financial troubles to an increasing number of borrowers who defaulted on their mortgages in a slumping housing market. Earlier in the year, the Federal Home Loan Mortgage Corporation (or “Freddie Mac”) announces that it will no longer purchase risky subprime mortgages and mortgage-related securities.







**March 16, 2008:** After losing billions in subprime mortgage investments, 85-year-old brokerage firm Bear Stearns collapses and is purchased by JPMorgan Chase at the cut-rate price of \$2 per share. Bear Stearns stock had been valued at \$30 per share just days before the sale. The shocking news of the sale sends **global stock markets tumbling**.

# Bear Stearns Collapses



# Lehman Brothers Bankruptcy

**September 15, 2008:** Brokerage firm  
Lehman Brothers declares bankruptcy. It's  
the largest bankruptcy case in U.S. history,  
involving \$619 billion in debts.





# AIG

**September 16, 2008:** The U.S. government announces plans to bail out insurance company AIG, paying \$85 billion for 80 percent of the company's assets. AIG had been considered one of the companies that was "too big to fail"—meaning its collapse would pose a threat to American financial stability.





# Bank Bailouts

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## November 2008-January 2009:

CitiGroup, Bank of America and other large institutions get bailouts to stay afloat.

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A bailout is when the government gives financial support to rescue a company that is in financial trouble and possibly at risk for bankruptcy. The bailout enables the survival of the company.

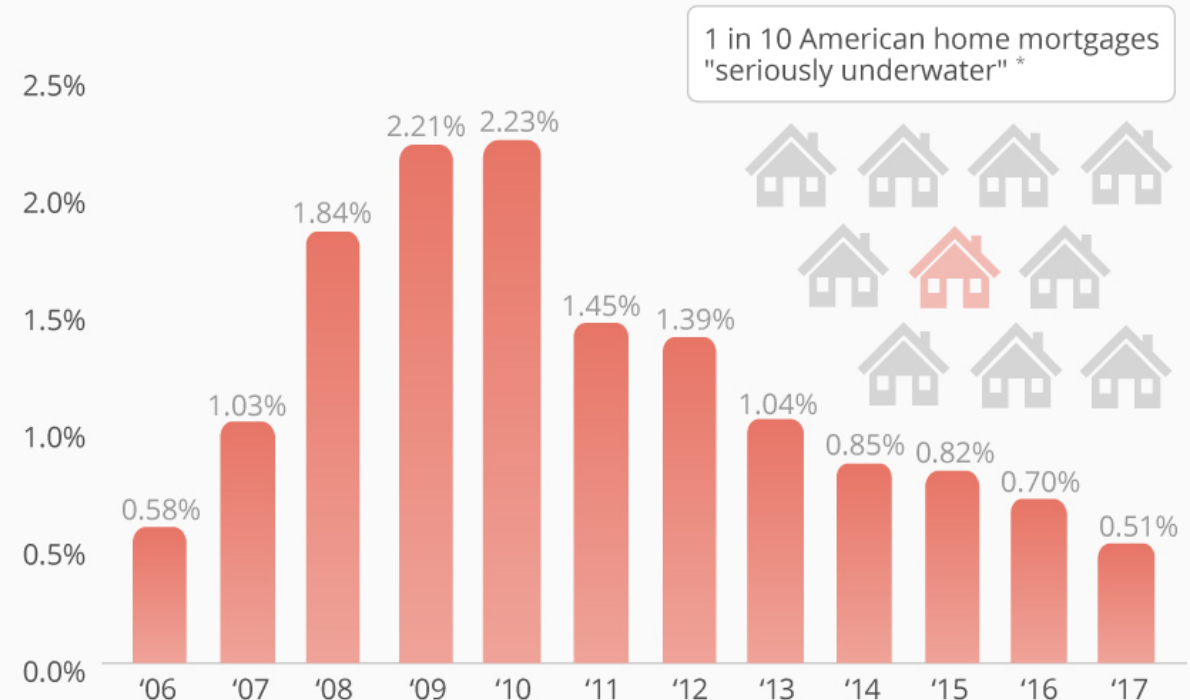


# Foreclosures

**December 2009:** Housing foreclosures in the United States reach record levels, with 2.9 million in 2009 alone.

## State of Foreclosure After Great Recession

Foreclosure rate in the U.S. between 2006—2017





## How long did it take to recover from Great Recession?

Unemployment was at 5% at the end of 2007, reached a high of 10% in October 2009, and did not recover to 5% until 2015, nearly eight years after the beginning of the recession. Real median household income did not surpass its pre-recession level until 2016.





## Stop and Discuss

What similarities did you find between the Great Depression and the Great Recession?

What differences?

