THE INITIAL GOVERNMENT RESPONSE

So, how did the U.S. government respond to these tragedies? The Federal Reserve cut the money supply to banks by nearly a third, thus choking off capital that would have helped industry retool and rehire (just the opposite experienced in the Great Recession of 2008). Consequently, many banks suffered liquidity problems (insufficient capital reserves to meet their obligations to depositors) and they simply went under. The result was that the "run" on bank deposits "went viral." The Fed's harsh reaction, while difficult to understand in hindsight, may have occurred because it wished to give Wall Street some tough love by refusing to bail out careless bankers.

Ironically, by increasing the money supply and keeping interest rates low during the roaring twenties, the Fed instigated the rapid expansion that arguably preceded the collapse. In some ways, it set up the market bubble leading to the crash and then kicked the U.S. economy when it was down by not rescuing the failing banks. [5]

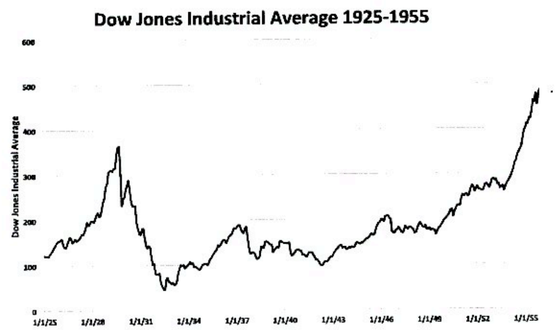
Did the stock market crash of 1929 start the Great Depression? Probably! Without question, the billions of dollars lost by Americans in the stock market crash created a confidence problem at three levels in the country: the employer, the banks, and the consumer. Since the banks had a severe liquidity problem, they would only make loans to very strong borrowers—and these were few and far between. Without capital, smaller companies could not grow or even remain status quo, so they laid off many of their employees in an effort to survive. This action pushed the general unemployment rate in the United States to an astonishing 25 percent by 1933, with 13 million Americans looking for work. (And 37 percent of non-farm workers were completely out of work!)

Compared to the Great Recession that gripped the United States (and the rest of the world) at the end of the first decade of the new century, the following graphic presentation of the Unemployment rate during the Great Depression presents a much bleaker picture.

The result was truly tragic: living conditions for many were at an all-time low, with poor housing, minimal health provisions, and insufficient food and clothing. People were literally starving, and many lost their farms and homes.

These astonishing conditions settled into the country's fragile psyches, and set the stage for the 1932 election—and a man whose plan for economic recovery included the creation of the CCC.

U.S. Unemployment Rate 1929–2010



Dow Jones Industrial Average 1925–1955

Depression Era Unemployment Statistics

Year	Population	Labor Force	Unemployed	Percentage of Labor Force
1929	88,010,000	49,440,000	1,550,000	3.14
1930	89,550,000	50,080,000	4,340,000	8.67
1931	90,710,000	50,680,000	8,020,000	15.82
1932	91,810,000	51,250,000	12,060,000	23.53
1933	92,950,000	51,840,000	12,830,000	24.75
1934	94,190,000	52,490,000	11,340,000	21.60
1935	95,460,000	53,140,000	10,610,000	19.97
1936	96,700,000	53,740,000	9,030,000	16.80
1937	97,870,000	54,320,000	7,700,000	14.18
1938	99,120,000	54,950,000	10,390,000	18.91
1939	100,360,000	55,600,000	9,480,000	17.05
1940	101,560,000	56,180,000	8,120,000	14.45
1941	102,700,000	57,530,000	5,560,000	9.66

U.S. Unemployment Statistics 1929–1941 Source: U.S. Bureau of the Census, Historical Statistics of the United States, Colonial Times to 1957 (Washington, D.C., 1960), p.706.