Q104 – When did the Great Depression start?

DOUGLAS GINSBURG, Federal Judge, U.S. Court of Appeals, D.C. Circuit:
Many people think the Great Depression started with the stock market crash of 1929. But that's not the whole story.

Stock prices had risen steadily throughout the 1920s. Midway through 1929, the economy weakened and

a recession began. In late October, more investors wanted to sell than to buy, and the stock market plunged. But by the spring of 1930, the stock market had rallied nearly to where it was before the crash. The problem was the banks. Some banks had over-extended themselves with too many loans. When they failed, depositors at other banks rushed to empty their accounts, but the banks lacked enough cash on hand to pay them all. Today we have deposit insurance to back up the banks. But back then, if a bank couldn't pay its customers, then it failed – and some or all of the depositors lost their savings.
Each bank failure scared depositors and triggered a run on other banks. Those banks likewise lacked enough cash on hand and they also failed – and so on through the early 1930s, until almost half the nation's banks were out of business. Where did people put their money then? In jars. Under mattresses. Anywhere but in a bank.
Instead of lending money to banks to halt the panic, the Federal Reserve increased interest rates – making it harder for banks to get the money they needed to pay their depositors. The economy went into freefall. By 1932, stocks had lost about four-fifths of their pre-crash value.
Recessions are a normal part of the business cycle. Depressions aren't. It was the short-sighted policies of the Federal Reserve that turned the crash of 1929 into the Great Depression.