The Great Depression: 1929-1939

- The Great Depression, a worldwide economic downturn, hits the U.S. in 1929 and lasts until about 1939. It is the longest and most severe depression experienced by the U.S. Its social and cultural effects are staggering. Many banks fail, many because they have made loans to stock market speculators that are never repaid.

  As the Depression eases into a national emergency, reaching its height between 1932 and 1933, the U.S. government establishes several agencies as a means for discharging new and emergency functions. The FDIC is one of these agencies.

  Other effects include the following: Industrial production declines 47 percent, GDP falls 30 percent, wholesale price index declines (deflation) 33 percent, unemployment exceeds 20 percent.

  In many ways, our lives are still governed by legislation spawned by the crash and the Depression.

- President Franklin D. Roosevelt initiates a legislative agenda, known as the New Deal, for rescuing the U.S. from the Great Depression. The major initiatives of the New Deal: stock market reform, aid to the unemployed, and strengthening the banking system.

Hawley-Smoot Tariff Act of 1930
This act steeply raises U.S. tariffs on imports. Foreign governments retaliate, which prevents free trade and lengthens the depression.

Reconstruction Finance Corporation (RFC) Act of 1932
This act is President Herbert Hoover's attempt to stimulate the economy. The act:

- Provides loans to banks, savings banks, building and loan associations, credit banks, industrial banks, mutual savings banks, and life insurance companies
- Makes loans to railroads, many of which cannot meet their bonded indebtedness payments.

Federal Home Loan Bank Act of 1932
This act:

- Establishes the Federal Home Loan Bank Board (FHLBB), which charters and supervises federal S&Ls
- Establishes the Federal Home Loan Banks (FHLBs)
- Gives the FHLBB authority to regulate and supervise S&Ls
- Gives FHLBs the authority to lend to S&Ls to finance home mortgages.

1932

On July 2, 1932, Franklin D. Roosevelt accepts the Democratic nomination for president, offering "a new deal for the American people."

- The height of the Depression: 1932 to 1933.
- The Senate Banking Committee opens an investigation into the abuses that triggered the Great Depression.
- The interest rate on U.S. Treasury bills goes negative because investors are willing to take a loss if they know that their money is safe.
- Unemployment is 25 percent.
- National income is 50 percent below that of 1929.
- Stock market is 75 percent below its 1929 high.
- Bank runs and closings are common.
- In the absence of money, barter becomes a form of exchange.

1933

- Franklin D. Roosevelt becomes president.
- On March 6, 1933, President Franklin D. Roosevelt declares a banking holiday and temporarily closes all U.S. banks.
- Money supply is 40 percent lower than 1929.
- Approximately 4,000 commercial banks fail.
- 1,700 S&Ls fail.
- Foreclosures clog banks and S&Ls with unsaleable assets.
- The FDIC examines nearly 8,000 state-chartered banks that are not members of the Federal Reserve Board (FRB).

Emergency Banking Act of 1933
This act, which President Roosevelt signs on March 9, 1933:

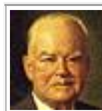
- Legalizes President Roosevelt's decision to declare a national banking holiday
- Permits the Office of the Comptroller of the Currency (OCC) to appoint a conservator with powers of receivership over all national banks threatened with suspension.

The Securities Act of 1933
This act requires strong disclosure statements of publicly held corporations, which deprives bankers of their monopoly on information.

The Banking Act of 1933

U.S. Presidents during the 1930s

President Roosevelt signs this act on June 16, 1933, to raise the confidence of the U.S. public in the banking system by alleviating the disruptions caused by bank failures and bank runs.


Herbert Hoover
(1929-1933)


Franklin D. Roosevelt
(1933-1945)

From 1929 to 1933, bank failures resulted in losses to depositors of about $1.3 billion. Before the FDIC was in operation, large-scale cash demands of fearful depositors often struck the fatal blow to banks that might otherwise have survived.

Since the FDIC went into operation, bank runs no longer constitute a threat to the banking industry.

This act:

- Establishes the FDIC as a temporary government corporation
- Gives the FDIC authority to provide deposit insurance to banks
- Gives the FDIC the authority to regulate and supervise state nonmember banks
- Funds the FDIC with initial loans of $289 million through the U.S. Treasury and the FRB
- Extends federal oversight to all commercial banks for the first time
- Separates commercial and investment banking (Glass-Steagall Act)
- Prohibits banks from paying interest on checking accounts
- Allows national banks to branch statewide, if allowed by state law.

1934

- The FDIC deposit insurance goes into temporary effect on January 1, 1934. The deposit insurance level is $2,500.
- On July 1, 1934, the FDIC deposit insurance increases the coverage level to $5,000.
- The FDIC employs 3,476 people, most of whom are bank examiners.
- Nine FDIC-insured banks fail.
- Each state in the nation has an FDIC regional office.

- The prime rate emerges as the rate that banks use in lending to their biggest and best corporate customers. Demand for business loans is nil, and banks charge as little as one-third of 1 percent interest. Between 1934 and 1947, the prime rises to approximately 1.5 percent.


On July 5, 1934, Mrs. Lydia Lobsiger received the first federal deposit insurance disbursement, following the failure of the Fond Du Lac State Bank in East Peoria, Illinois.

- The FDIC fund has a balance of $292 million.

The National Housing Act of 1934
This act creates the Federal Savings and Loan Insurance Corporation (FSLIC), which is administered by the Federal Home Loan Bank Board (FHLBB). FSLIC insures S&L deposits until 1989, when the FDIC assumes responsibility for the bankrupt fund as the Savings Association Insurance Fund (SAIF).

The Securities Exchange Act of 1934
This act:

- Creates the Securities and Exchange Commission (SEC)
- Requires any company whose securities are traded on national exchanges or over-the-counter to file registration applications and annual reports with the SEC that detail the economic health of the company.

1935

- There are 9,027 state banks and 4,692 national banks. The approximate number of banks remains consistent until the 1980s.
- 26 FDIC-insured banks fail.

The Federal Credit Union Act of 1935
This act establishes federal credit unions.

The Banking Act of 1935
This act:

- Establishes the FDIC as a permanent agency of the government
- Provides for permanent deposit insurance and maintains it at the $5,000 level.

1936
The U.S. stock of gold bullion is so imposing that the U.S. Treasury Department constructs an "impregnable" storage fortress to hold the metal at Fort Knox, Kentucky.

1937

- Cash and U.S. government securities make up 52 percent of banks' assets—more than double the proportion held in 1929.
- 77 FDIC-insured banks fail.

Banking Regulatory Agencies				
Regulatory Agency	**Year Created**	**Created to Regulate**	**Supervision/ Examination**	**Deposits Insured by**
State	Varies State	State Banks and	State Banks and	Varies State

Agencies	to State	S&Ls	S&Ls	to State
OCC	1864	National Banks	National Banks	FDIC
FRB	1913	National and State-Member Banks	State Member Banks	FDIC
FHLBB	1932	S&Ls	S&Ls	FSLIC from 1934
FDIC	1933	State Non-Member Banks and State-Chartered Mutual Savings Banks	State Non-Member Banks and State-Chartered Mutual Savings Banks	FDIC
NCUA	1935	National Credit Unions	All Insured Credit Unions	NCUSIF
OTS	1989	Federal Savings Associations and Mutual Banks	Federal S&Ls and Mutual Banks	FDIC

Recession of 1937-1938
By 1936, believing the worst was over, President Roosevelt began cutting the spending and relief programs that had been set up as part of the New Deal to counter the Depression. As a result, the country slipped into another recession that lasted from 1937 until 1938.

1938
74 FDIC-insured banks with $69.5 million in assets fail.

Source: http://www.fdic.gov/about/learn/learning/when/1930s.html
April, 2014