Name ______________________ Date ______________________ Class ______________________

Economics and History Activity 3

Recession and Depression

We have ups and downs—called business fluctuations—in our economy. During periods of prosperity, new businesses open, factories are producing at full capacity, and everyone who wants work can find a job. The 1920s, 1950s, and 1990s were periods of economic prosperity in the United States.

Eventually, however, periods of economic contraction occur, in which business activity begins to slow down. If the contraction lasts long enough, the economy can continue downward until it slips into a recession. A **recession** is defined as any period of at least two consecutive quarters during which the economy is not growing. (A quarter is a three-month period.) In a recession, business activity starts to fall at a rapid rate. Factories cut back on production and lay off workers. Consumers, with less income, cut back on their purchases. Faced with a worsening economy, fewer new businesses open and some existing ones fail. If a recession becomes extremely bad, it deepens into a **depression**. Then millions of people are out of work, many businesses fail, and the economy operates far below capacity.

Although recessions can hurt people, they are considered a normal part of doing business in a free market economy. Recessions are worrisome mainly because they can open the door to a depression. Economists, the government, businesses, and investors watch carefully for signs of a recession. The main sign is slowdowns in production, such as fewer houses being built or fewer jobs being created.

People believe the American economy in the second half of the 1900s was very impressive. As Figure 1 below shows, however, there were many recessions during this time.

THE GREAT DEPRESSION: 1929–1941

The Great Depression ranks as one of America's defining periods. The stock market crash in October 1929 caused a serious recession. The downward spiral in the economy continued from 1929 until 1933. Factories shut down, laying off millions of workers. Businesses and banks failed by the thousands. Between 1929 and 1933, productivity in the United States fell from $103 billion a year to $56 billion.

Figure 1—U.S. Recessions, 1953–1991

Start of Recession (Year/Quarter)	End of Recession (Year/Quarter)	Length of Recession (Quarters)
1953/III	1954/II	4
1957/IV	1958/I	2
1960/II	1960/IV	3
1969/IV	1970/IV	5
1974/I	1975/I	5
1980/II	1980/III	2
1981/IV	1982/III	4
1990/III	1991/I	3

SOURCE: *Congressional Quarterly's Desk Reference on the Economy*, Richard J. Carroll. CQ Press, p. 8.

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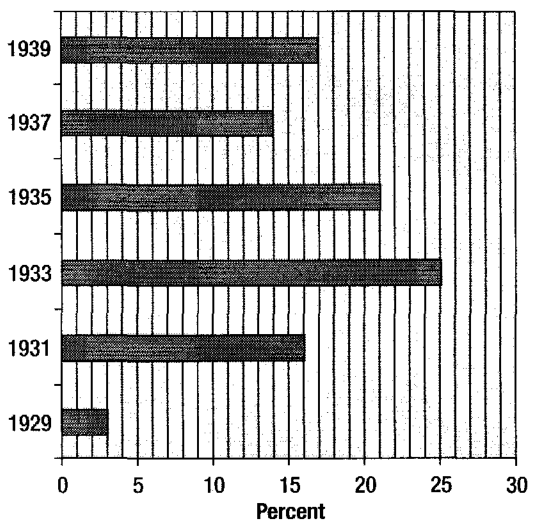
Economics and History Activity 3 (continued)

UNEMPLOYMENT

The worst effect of a depression is unemployment. In 1933 unemployment reached 25 percent. That means one in four able and willing adults were out of work. In addition, many people were underemployed, or working at jobs significantly below their skill levels for little money. Unemployment results in less money to spend, which lowers demand. When demand shrinks, productivity declines. When productivity declines, businesses lay off workers, adding to unemployment and underemployment. During the 1930s, the government introduced New Deal economic measures that helped improve conditions. However, only the production necessary to fight World War II brought the country out of the catastrophe of the Great Depression.

Figure 2–Unemployment Rate 1929–1939



POLICY RESPONSES

The most significant long-term effect of the Great Depression was increased government involvement in the economy to prevent such a crisis from happening again in a free market. Before the Great Depression, economists believed that the market would always naturally move toward a production level at full employment. The Great Depression taught us otherwise. After World War II, the United States government adopted full employment as a national policy. Economists today generally have come to consider the economy at full employment when the unemployment rate is less than 5 percent.

APPLYING ECONOMICS TO HISTORY

Directions: Use the information you have read and the information in Figure 1 and Figure 2 to answer the following questions on a separate sheet of paper.

RECALLING INFORMATION

1. How many months did the recession that began in 1974 last?
2. What was the unemployment rate at the height of the Great Depression?
3. Explain the cycle that makes recovering from an economic depression so difficult.
4. What is meant by *full employment*?

CRITICAL THINKING

5. **Making Comparisons** The Great Depression was a time of high unemployment and underemployment in America. What other countries around the world are in a similar condition today? Should the United States help them become economically stronger? Explain your reasoning.
6. **Hypothesizing** Look at Figure 1 showing the recessions from 1953–1991. What do you think helped the economy avoid a recession during much of the 1990s?