Explain Like I'm 10 📉

What was the Great Depression?

KS3 KS4 Ages 11-16 ⏰ 5 min read

On the 24th of October 1929 — Black Thursday — the New York Stock Exchange began to collapse. Share prices that had risen steeply through the 1920s plummeted. Panic selling set in. By the end of the following week, over $30 billion of value had evaporated. What followed was a decade of economic suffering that touched almost every country on Earth.

What caused it?

There was no single cause — the Great Depression was a confluence of problems that reinforced each other. The 1920s had seen a speculative bubble: share prices had risen far beyond what company earnings justified, fuelled by easy credit and irrational optimism. When the bubble burst in 1929, investors were wiped out. Banks that had lent money to investors now had bad debts. Banks started failing. As banks failed, ordinary people lost their savings. People stopped spending. Businesses with no customers started laying off workers. Workers with no income stopped buying things. The cycle fed on itself.

🎪 Imagine a circus where everyone has borrowed money to buy tickets because the show is wonderful and they expect to be paid back by selling their ticket to someone else for more. As long as everyone keeps believing in the show, prices stay up. But the moment a few people think the show might not be worth it and try to sell, others panic and sell too. Prices collapse, nobody can repay their loans, and suddenly the circus — and half the town with it — goes bankrupt. That's a financial bubble and crash, just with shares instead of circus tickets.

How bad did it get?

In the United States, unemployment reached 25% by 1933 — one in four workers had no job. Banks across the country failed; the US money supply shrank by a third. In Germany, where the economy was already fragile from post-war reparations, unemployment hit 30%, creating the conditions of desperation and resentment that helped bring Adolf Hitler to power. In Britain, unemployment in industrial areas like South Wales and the north of England reached devastating levels. International trade collapsed by over 65% as countries raised tariffs to protect their own industries, which made everything worse.

How did it end?

Recovery was slow and uneven. In the US, President Franklin Roosevelt's New Deal — a programme of government spending on infrastructure, social programmes, and banking reform — provided relief and stabilised the financial system, though full recovery didn't come until the Second World War, when massive government spending on armaments ended unemployment almost overnight. The war proved that governments could stimulate economies by spending money — a lesson that transformed economic policy. The Great Depression is the reason most developed countries now have unemployment insurance, deposit protection for bank customers, and central banks willing to intervene aggressively in a crisis. The 2008 financial crisis response — bailouts, stimulus spending, quantitative easing — was shaped almost entirely by lessons learned from 1929.