

# Causes and effects of debt and recessions



**ASSIGN  
BUSTER**

### The great Depression in parts of World

As we mentioned before, the Great Depression mainly started in the United States, but the U. S. was not the only state that was affected by it. Other states around the world were also affected by the economic recession of 1930s.

Herbert Hoover, the president of the United States during the years of the Great Depression, attempted to recover the country by establishing some internal and external policies. Hoover's believe was that too much interference of the federal government would end America's independence and self-determination. Hoover also created projects to increase the public works' funding, but they only created jobs for a small part of the unemployed people. Then in October 1931, Hoover set up the National Credit Corporation (NCC) in an attempt to calm the money deficiency. However, this program failed because it didn't satisfy the nation's expectations. In 1932, Hoover was the one who requested that Congress set up the Reconstruction Finance Corporation (RFC) to make mortgages to businesses but in the end it didn't succeed. In 1932, Congress passed the Emergency Relief and Construction Act to support for a federal relief. Yet, this program couldn't invert the collapse during the Great Depression. Because Hoover failed to recover the United States, social unrest and violence began to surface while the depression deepened. Unemployed workers, relief recipients, and unpaid schoolteachers piled up together and performed demonstrations to show their disappointment.

Even though Hoover initiated some internal programs to help the recovery of economy, he was slow to respond to the depression.

### The Smoot-Hawley Tariff

In 1932 Hoover signed the Smoot-Hawley Tariff. It increased the tariffs by 50%. The increase of the tariff with 50% will make the imported goods more expensive and the people will buy the nation's goods which led to the increase of demand. -But the countries of Europe reacted with the increase of their tariffs which decreased the exports of USA ~ 70%. The war of trade impacted further the prices of agricultural goods which decreased more and then more farmers bankrupted. The tariffs damaged not only American farmers, but they damaged the German unstable economy too. Germany started to pay the reparation to France and UK based on the Versailles Treaty. UK and France decreased the payments to loans that they had from the banks of USA which further weakened the banks in USA.

### War debts at the end of World War I

All European nations had to pay over \$10 billion (\$115 billion in 2002 dollars) to USA. The economies of Europe had been destroyed from the war, therefore they hadn't the money to pay back of. While USA requested the money back from former allies, this enforced the requests of European Countries to Germany to pay the reparations based on the Versailles Treaty, but Germany could not pay these reparations. This situation worsened the crisis since Europe could not buy goods from the USA. The decline of world trade helped to bring the great depression.

## FDR – New Deal

Following the Social Unrest of 1932, the people had blamed Hoover for failing to recover the States from the Great Depression. When Franklin D. Roosevelt came to power on March 1933, many thought that he was strived to end the Great Depression completely. During his campaigns, he promised to help the poor farmers, unemployed people, and also the elderly. Other than declaring a bank holiday, Roosevelt had created a new program for the economic recovery called the New Deal, which aimed to help the jobless, to recover the the economy, and prevent another depression. Here is a list of the New Deal programs and their purposes:

- The Civilian Conservation Corps (CCC) provided jobs for the unemployed from age 17 to 29.
- The Federal Emergency Relief Administration (FERA) helped by paying the states so they could give money and clothing for the unemployed people.
- The Agricultural Adjustment Administration (AAA) paid farmers to stop growing specified crops, such as cotton, grain, tobacco, and corn.
- The National Recovery Administration (NRA) regulated wages, price control, and economic conditions in the industry.
- The Public Works Administration (PWA) made possible the construction of ports, schools, and aircraft carriers.
- The Works Progress Administration (WPA) employed many unskilled people to do public work projects.

In 1934, FDR launched the Second New Deal which was more concentrated on increasing purchases and public social security. The Second New Deal programs dealt with reforming and also recovery. Some of Second New Deal programs and their purposes are listed below:

- The Social Security Act, sought to help the old people by setting up a pension system. The act also gave the States money to aid dependent children and people with disabilities.
- The National Labor Act, created a National Labor Relations Board for protecting the organized labor rights.
- The second AAA, established in 1928(verify 1928 apo 1938????), was established for agriculture recovery to pay farmers for conservation methods, but only if they limited the necessary crop production.
- U. S. Housing Authority Act, established in 1937 in order to construct better house buildings by demolishing ghettos.

Eventually, the New Deal that FDR launched couldn't end the Great Depression since many agricultural problems were left unsolved. It is still dubious at how the Deal programs helped ending the depression. The Deal did, however, restore hope that was missing in the United States during the depression and also eased the hardships of its economy even though by the end of 1930s the country's economy was still bad.

The major change of USA Economy happened after the event of Pearl Harbor which noted the entry of USA in World War II. The people and industry of USA were in the functionality of war. The war's weapons were needed urgently All the people worked for the war, the men trained to in order to be soldiers

while the women worked in fabrics. There were the urgent needs for the Food for inside country and overseas at the war front.

The entrance of the USA in World War II finished the Great Depression in the USA

## B. Worldwide Impact

The Depression was followed by a global collapse of the industrial economy in Europe and the U. S., which also brought political and economic tension on every society. Furthermore, the depression brought a sequence of difficulties in the West and economic flaws in the world. As we mentioned, the starting of Great Depression is typically linked to the Crash of the stock market on October 29, 1929. However, in some countries it started by early 1928. In the same way, while the ending of Great Depression is related with the entrance of the USA to World War II in 1941, in different countries it finished at different times. The USA's economy was growing in the middle of 1938 while many countries around the world were hurt by the Great Depression, those industrialized and also those that exported raw materials.

## Effects of Great Depression worldwide

### United States

Most people see that the Great Depression had its starting point in the United States in 1933, when more than 15 million Americans were unemployed and the economic production decreased by almost 50%.

### Canada

The Depression also hit Canada very hard, with the unemployed labor force 30%. The unemployment rate was less than 12% at the starting of World War Two.

### Australia

Australia was affected hard too. The salaries dropped and the unemployment was 32% by 1931

### Europe

After World War II, most European countries owed a lot of money to American banks but the loans were so high and they couldn't pay them. Since the American government didn't accept the debt, Europe started borrowing money to pay back.

However, as the economy of USA started to slow down, the European countries founded in difficulty where to borrow money. Further the United States had the high tariffs. European countries couldn't sell the products in markets of USA. These countries started to have the failure to pay the loans. After the crash of stock market banks stayed afloat. They recalled their loans. While the money ran out of Europe and returned to USA, the European economies started to go down separately.

The farmers throughout faced the food overproduction and the low price. The production of food had increased in the reply to needs of war. Many farmers bought the new equipment borrowing heavily, believing that the good market will continue to be higher. But the increase of production in Europe and the high imports from USA caused the decrease of the price,

<https://assignbuster.com/causes-and-effects-of-debt-and-recessions/>

which made the payment of the debts very hard. The farmers leaved the rural areas.

The international trade of Europe with USA decreased significantly during the depression period mainly due to the establishment by U. S government of Smoot-Hawley Tariff Policy in 1930 which applied 50% tariff to imported goods. The U. S government formed this policy in order to help and protect the companies of USA by increasing the demand for domestic goods. But, the charging with a high tariff of the goods from imports dropped the trade between USA and other foreign countries, including Europe, so created unemployment out of the country while the factories closed up. Kinderberger (1986) shows that during 1933 international trade decreased by 33% compared to the trade in 1929.

#### France

Despite being affected by the World War I, France wasn't affected that much compared to the other European countries during the Great Depression, since it wasn't dependent in trade. By 1930s, the country was characterized by high unemployment and political anxiety.

#### Germany

After the First World War, Germany was angry for losing their territory and paying war debts, while America provided loans in order to rebuild German economy. But, these loans stopped during the Depression causing the rising of unemployment and the development of extremism in the political system. In 1921, Germany made the first compensation payment and one year later



they claimed that they wouldn't be able to manage paying any longer. The reasons because German people put their faith in Hitler were because of their humiliation, the enormous debt, and the economic crisis after World War I.

Nazi Germany, which boasted the economy and reached full employment, kept low level of wages while not harmonizing the allocation of investments and constantly growing its dependence from military production.

## Poland

During the Great Depression, Poland, the newly independent country, experienced a quick and deep recession. The economy grew in the 1920s by attracting foreign wealth and loans. Then in 1929, a financial crash made the capital flow reduce and eventually the prices of agricultural products fell. The severe results of the economic collapse were social, being accompanied with high unemployment and low wages of agricultural workers. The total production of industry in 1932 was ~40% less than in 1928. But, the economy of Poland had developed by 1934 and increased past 19% in 1937. Because of this, the Polish government wanted to acquire capital in private and launched a strategy called the " Polish Etatism". The strategy permitted the Polish government to take control of the saving banks, the operation of foreign exchange, cartels and foreign trade. Additionally it influenced a huge investment program in public labor and the private actions. One project that was a great achievement was the Central Industrial District development in 1936, which was concentrated on the military, transportation, agricultural, industrialization, and urbanization improvement.

## Romania

In Romania, the sector that was hit very hard was the agricultural one where the government earnings fell because of the decline of the agriculture products exports. By 1932, the taxes fell and the government began to aid the poor by forcing their repayment's delay. However, during the depression, the government needed with any cost the fiscal balance so it was hard for it to intervene in the economy. During the first years, there wasn't any understandable plan with the goal to fight depression, but instead to fight the most important problems. Furthermore, Romania had a huge problem with the foreign debt. Since European states couldn't take loan to deal with their debts, import limits were increased and in 1932 the control on exchange was established. The industry of Romania managed to recover during the 1930s, however the most of people were too poor to impact the increase of consumption and demands, and in addition the developments in foreign markets could not help since they became protectionists as effect of Depression.

## Greece

During the inter-war period, in Greece was present a strong belief in favor of financial independence and nationwide autonomy. Derilis and Costis (2006) claimed that this ideology could have been changed into an actual policy in 1932. The economy was focused more internally and was led by the state, which was to some degree a reaction to the other nations' activities that broadly presented controls on trade and fees. High taxes, determinable restrictions and the use of mutual clearing agreements were broadly utilized.

The state involvement in economic issues increased throughout the 1930s. The guideline of Greek Economy was now the greater independence using the inside resources and less dependence from the international economy. This tendency was noticeable in both industry and agriculture (Aldcroft, 2006).

### Yugoslavia

In reality Yugoslavia was not hit particularly hard by the crisis, though the peasants faced the worst, being unable to pay and calling for the government action to relieve them of their debts. The government reduced taxes for the farming communities and eliminated debts for about 600, 000 small farmers. The government`s response to the crisis was under heavy French influence. The government tried to balance the budget and National Bank started promoting deflationary monetary policy, and imposed exchange control in 1931. Soon the government recognized the error of its economic policy and in 1933 started to pursue more expansionary fiscal policy, which soon turned deflation into inflation. The government was also spending money on public works, and was actively trying to influence the commercial banks to lower their interest rates.

### Comparing the Great Depression and the Economic Crisis of 2008

There have been a lot of comments and misconceptions about the comparison of the Great Depression and the Great Credit Crisis of 2008.

Both of them were originated in US and then spread out the world.

The Trade, capital flow and policies on prices of commodities were the factors which spread worldwide the Great Depression. Depending from their specifics and the above factors, different countries faced different effects. For example, France was almost passive, while some other countries, such as Japan, was affected and used largely the monetary and fiscal policies during that period.

On the contrary, the Great Credit Crises was global, started in US and with bigger influence in US. It impacted the global world economy with even worse effects in other countries exports, production and equity prices decline. But in the similar way with the measures taken during the Great Depression, different countries reacted in different ways. Some countries applied more aggressive monetary and fiscal policies; some other applied less aggressive ones.

### Summary

The crash of the stock market on October 1929 was not the cause of Great Depression. It was a symptom. It was followed by the bank closing crisis which reduced largely the money flow in the country, drop of demands and production and increase of unemployment as well.

The major causes of the depression were the wrong policies established by the Federal Reserve, wrong ration of investments in production vs. the salaries, overproduction in industry and agriculture, and inequality of wealth distribution. Other factors such as the needs for the reconstruction of economy, the needs for renovation of old industry and railway rods, massive

people migration and natural ecologic disasters influenced badly the economy during the Great depression.

The measures taken by the President Hoover administration in order to ease the effects of depressions were late and not sufficient while most of them failed.

President Roosevelt administration applied several measures as part of so called New Deal Programs, which were effective, helped for easing and avoiding the effects of Great Depression but did not end it. These measures returned back the hope and confidence of investors and consumers, and combined with the increased production which served the demands of WWII, created the foundation for the US economy recovery and then for a rapid development of it after the war.

The great depression was not only a local USA crisis; it was global and widespread in world. The impact of it was different for each country depending from their domestic economy specifics and dependency from the world economy. In some aspects, the Great Depression worldwide effects and reaction to them, joined by the weakness and confusion in the outside foreign policies were one of the causes which pushed the world into WWII.