Differing responses to the great depression and their outcomes in united states a...

Countries, Germany

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The great depression was the deepest and lengthiest economic recession in the history of the industrialized nations of America and Europe that lasted from 1929 to 1939. The crash of the stock market that led to Wall Street wiping out many investors due to panic marked the beginning of the great depression in United States of America. Germany, however, had been plagued by structural unemployment during the 1920s. There were very sharp contractions of the German economy in 1929. The US economy rose again after 1933 but suffered yet another recession in 1937-38 while the German and many other European economies grew rapidly and managed to avoid the 1937-38 recession. This difference in the result of the recession and how the economic progressed suggests that the US and Germany used different approaches to addressing the recession. Economists, however, differ concerning the factors that brought the recession to an end across the spectrum. In the United States, these factors revolved around the fiscal and monetary policies while in Germany it was largely about a direct attack on unemployment.

United States

Some economists believe that the fiscal policy associated with the Second World War was the real thing that brought the recession to an end. Others find that the fiscal policy had nothing to do with the economic recovery and suggest the real source of recovery was the expansionary monetary policy affected after 1934. Another theory is that mean-reverting or self-correcting forces with the economic structure contributed to the change. A study by Robert (2009) indicates that the Gross Domestic Product (GDP) experienced a persistent growth beginning 1938. The growth of the mid-1938, however, is widely viewed as a recovery from the recession of 1937 and not from the Great Depression. In his paper, Robert (2009) finds that monetary policy had everything to do with the economic increase. He argues that as late as 1941, suppressing the monetary policy O innovations would have resulted in a greater impact on the economy compared to suppressing the fiscal policy innovations.

President Franklin D. Roosevelt being in charge during the recovery, not only abolished the gold standard used in the 1920s but also came up with the policy objective of inflating the levels of prices to levels before the depression. Roosevelt also expanded the real deficit spending on the side of fiscal policy. Combined, these actions violated the policies that existed and introduced a credible policy objective. When Roosevelt came to power in 1933, he took action to close all banks in the country and declared a national “ banking holiday” on March 6, 1933. The action is highly hailed as a necessary action that contributed to economic increase.

Accordant to the predominant understanding, recovery from the great

depression came from increases in the money stock that was in itself a result of two independent developments. One was foreign while the other was domestic. The local development was the devaluation of 1933 that signalled the institution of a policy system of increasing the prices as the way out of the depression. The foreign development was the political unrest in Europe. The turmoil in Europe ensured a continued inflow of gold to raise the monetary base. This hence increased the money stock, which prevented the economy from languishing. It was Adolf Hitler's flight of capital to the United States that helped the country recover before 1941. From the start of the recovery in 1933, prices in the wholesale rose by forty-six percent until the contraction in 1937. The prices then began to fall because the depression resulted in an additional demand for money, that is, to deterioration in the velocity of monetary outlay. The demand for money finally ceased as a response to increasing awareness that the war in Europe would involve the United States (Frank 2011). This shift from the fear of a persistent depressed condition to the fear of the war in Europe involving the country and its prospective shortages would have moderated the increased demand for money relative to the growing monetary stock.

Germany

Hitler's economic policy involved borrowing from the public to a large scale. This money was used for public expenditure and principally for civilian work at first. It included the construction of railroads, canals, railroads and the Autobahnen (a highway network). By so doing, Germany experienced a more direct and effective attack on unemployment compared to any other country

in the world. By 1935, there was very minimal unemployment in Germany as the government rolled out many projects that absorbed people. Towards 1936, the German economy was experiencing high incomes, and this not only pulled up the prices but also made it possible to raise them. By the late thirties, Germany was stable, and people were fully employed, an entirely unique achievement. When Hitler took office, he rolled out an all-out attack on unemployment. He and his new government stimulated the private industry through tax rebates and provision of subsidies. This encouraged consumer spending by means of marriage loans and in addition to the massive public works projects of the highways system and the railroads, he built housing for his people. The leaders during recovery of the German economy also managed to persuade the formally hostile and sceptic Germans of their resolve, ability and sincerity. This fostered confidence and trust, which encouraged people to invest and to spend with their eyes focused on the future.

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