

The great depression: causes and effects essay example

[Countries, United States](#)



There have been few instances in the United States' relatively short history that have looked so dismal as the Great Depression. To this day, people who lived through the Great Depression remember the fear and uncertainty of that time; it remains indelibly etched into the American cultural memory. However, what few people realize is that the Great Depression was not an instance that was unique to the American experience; countries around the world experienced economic depression to varying degrees during the time period that American history calls "the Great Depression." There are a number of factors that historians believe contributed to the Great Depression, and in reality, a combination of factors were responsible for the crash that led to nearly a decade of economic depression (Eichengreen and Temin).

Some historians cite the stock market crash on Black Tuesday, October 29th, 1929 as the start and cause of the Great Depression (Eichengreen and Temin). However, most historians and economic theorists posit that the stock market does not crash without a reason, and that the stock market crash was a symptom of the Great Depression rather than an inciting factor (Eichengreen and Temin). Every historian and economic theorist has a different opinion and theory on why the Great Depression began, and each are convincing in their own way. However, there are a few theories that make the most sense in context of the time and the current understanding of economic theory; these theories, perhaps in combination, create the most compelling picture of the economic crash that occurred during the Great Depression.

Before discussing potential reasons for the Great Depression, however, it is

important to understand the timeline of the period. During the 1920s, the United States experienced a decade of relative post-war prosperity, often referred to as the “Roaring Twenties” (Eichengreen and Temin). This was a time when both the economic climate and the social climate in the United States experienced a significant change; Victorian social mores were largely set aside, and socially-responsible and liberalizing movements-- like the women's suffrage movement-- gained popularity in the United States (Bernake). However, the good times were not to last. As previously stated, on Black Tuesday-- October 29th, 1929, the stock market crashed, marking the worst economic recession the world would see for the entirety of the 21st Century (Robbins and Weidenbaum). This depression lasted until the late 1930s and early 1940s to varying degrees in nations around the world. In many places, the effects of the Great Depression were felt until the end of World War II (Robbins and Weidenbaum).

The question of what caused this economic depression has plagued historians and economic theorists since the Great Depression began. However, the two most convincing theories can be split into two categories: the monetarist theories and the demand-driven theories. The monetarist theories suggest that the Great Depression was driven almost exclusively by monetary contraction and poor decisions regarding fiscal policy by the Federal Reserve of the United States (Robbins and Weidenbaum).

Monetarists suggest that monetary contraction-- or a decrease in the supply of money available in the United States-- played a large role in the Great Depression (Robbins and Weidenbaum). Some of these theorists suggest that the Great Depression began as a mere economic recession, but the the

Federal Reserve's lack of action regarding monetary contraction allowed the problem to snowball and escalate into a problem of hyper-significance (Robbins and Weidenbaum). Because the Federal Reserve did not act, people began to panic; banks were not insured in the same way that they are insured today, so people began to make runs on the banks, pulling out their money at rates that the banks themselves could not keep up with because of the contraction of the money supply (Robbins and Weidenbaum). As the runs on the banks continued, the Federal Reserve still refused to step in, according to the monetarists, and allowed the failure of a number of large banks, causing further distrust in the banking and monetary system in the United States (Robbins and Weidenbaum).

During the time leading up to the Great Depression, the Federal Reserve was fettered in the amount of credit it could issue due to a number of restrictions that Congress had passed regarding the gold standard and gold backing of credit from the Federal Reserve (Robbins and Weidenbaum). When the Great Depression hit, monetarists say that these restrictions further inhibited the Federal Reserve in its actions, ensuring that it could not take the decisive action needed to stave off the significant depression that was inevitable without action (Robbins and Weidenbaum).

The monetarists are opposed by the Keynesian theorists in regards to the supply and demand nature of money in the United States during the era immediately preceding the Great Depression, and during the Depression itself. The Keynesian economists suggested that to remove the country and the world from the Great Depression, the government had to run its budget at a deficit during times of recession (Rothbard). However, as can easily be

seen from the time leading up to the Great Depression, the government was not interested in running a deficit to the extent that it needed to stave off the coming recession; once the Great Depression hit, it was so devastating that the government did not have the means to increase spending or cut taxes enough to pull the country out of the economic recession that had become so devastating (Rothbard).

These two theories are not exclusive to each other; the monetarist theory does not exclude the Keynesian theory of economics and the Great Depression from being true. In reality, the truth is probably somewhere in the middle of these two theories; the Great Depression was caused by a number of complex economic and social factors, and was made worse by the fact that the government could not spend enough to pull the economy out of the hole that was getting deeper and deeper with every passing day.

In addition to the economic factors, there were a number of social factors that made the Great Depression worse than a normal economic recession as well. Today, people are used to being able to keep their money in banks and having that money insured by the Federal Reserve; however, during the time before the Great Depression, money was not insured by the Federal Reserve. The lack of trust in the economic system and the runs on the banks that occurred are more than likely another one of the reasons that the Great Depression and the stock market crash on Black Tuesday were so devastating and widespread.

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