The primary producing countries successfully responded to the depression through ...

Business, Marketing

The depression of 1930's was known as the great depression because its ripples were felt in all countries of the word. It originated from United States and its spread was attributed to the forged relationship between United States and European economies. The further spread to primary producing countries is attributed to the trade interrelation which had developed between these countries and the already developed countries. The primary producing nations included Latin America, Asia and Africa states. This depression strongly pressed countries like Britain and Germany because they had a lot of loans obtained from United States. Employment in these countries shot to around 25% in Germany by 1932. (Bulmer-Thomas, Victor. 1994)

Economic depression refers to a sustained economy recession a situation where by countries gross national product is continuously falling, this brings a bout low production and sales leading to increased unemployment. Every government looked for means and ways to protect its economy or rather reduce the effect of this extended business depression. This was done by setting quotas, imposing tariffs and increasing the existing ones all with the aim of decreasing the international trade to minimize economic contacts. This was so serious because by 1932 international trades fallen for more than half. (A. J. Latham 1981)

All countries experienced internal fall in sales which was usually caused by fear of consumers to spend because they anticipated that they may loose their jobs, thus aggregate demand fell. The primary producing countries put in place measures i. e. there governments had to intervene using monetary and fiscal policies. Monetary policies implies an attempt by central bank of a

country to increase or decrease the supply of money in an economy by the use of tools like open market operation , bank rates among others. A fiscal policy refers to government use of budget to influence the economy through either government expenditure or taxation. During depression the government embarked on expansionary fiscal policies implying increased government spending on public works, this is made to stimulate the aggregate demand. (This replaces the decreased demand in the private sector). The government expenditure decreases as the economy recovers. Primary producing countries refers to those countries which mainly export unprocessed goods to earn foreign exchange, hence bring the implication that these countries are not industrialized. They usually export to developed countries and their products face unstable markets in the world markets. In addition these commodities do not respond quickly to changes in demand. This countries gross domestic produce is usually low, their level of human capital is usually low, infrastructure is not very well developed and their economies depend so much on industrialized nations. Hence their economies are not stable. Examples of the countries are Asia, African countries, Latin American states such as Brazil, Argentine among others.

The depression spread to all over the world through trade and financial linkages. This led to fall of various companies of industrialized countries subsequently lack of market for primary producing countries. United States had emerged from World War 1 with a very strong economy it had also established strong relationship with Europe whose economy had been greatly affected by war. The slump of American economy meant dried flow of credit investments to Europe. This had the implication of falling Europe

industrial and export sector.

In the Latin America primary producing countries imposed monetary contraction and adoption of conservative gold reserve was one of the main ways used to counter this great economic depression. This was because the credit flow from United States had already decreased due to fallen people's trust on financial institutions. All depositors required the banks to return to them their savings in liquid cash a demand which the banks could not met. Primary producing countries mainly relied on mining and agriculture export whose demand had fallen drastically. The fall in prices of their exports led to fall in foreign reserves. There was also decline foreign direct investments leading to increased lose of jobs. It is only the oil exports of Venezuela which were not greatly affected by this depression.

In Latin America there was monetary difficult and they could not obtain external foreign exchange to help this situation and pay for important exports. The governments experienced deficit budgets and fall of gold reserves. The government responded to this by suspending paying of all external debts e. g. Chile. This was a nice move made by governments because it could not afford to loose the little foreign currency remaining. Hence government income could only be used to purchase important imports. Some countries which attempted to service their external debts did not make any significant impact because the interest rates of the debts were not altered meaning the debt kept on rising in real terms.

Property taxes could not be increased due to protest by business people. This limited sources of government finance. Though governments failed to increase taxes to remain popular this is also expansionary fiscal policy aimed

at stimulating the economy. This is because according to Keynes school of thought during depression government should aim at decreasing taxes. The depression brought economic deflationary pressure and great fiscal strain. This suffocated potential of gold standard popularly known as " straight jacket" this could not solve the entire problem. But even after its adoption Argentina continued shipping gold to settle external debts this strained its gold reserve. Argentina Caja de Conversión by 1931 began issuing domestic currency in exchange for commercial papers. This is a way of credit creation, Credit creation is away of increasing money supply. Expansionary monetary policy was a nice move made to save depression. Thus people could get loans to invest and subsequently increase employment. The " patriotic loan " legislation of 1932 allowed rediscount of treasury paper enhanced the power of conversion office to make new fiduciary issue via open market operation. This was another expansionary monetary move made to counter depression. (Keynes, J. M. 1936)

The government made a move to actively involve it self in policy and planning. Thus laissez-faire which advocated free market economy lost popularity. This move made by government was appropriate because if the economy is left to go back to equilibrium (by use of market force) could take so long.
For example some governments e. g. Brazil put foreword strict exchange controls meant to alleviate scarcity of exchange currency required easily. This restricted unnecessary import because you could not get the required foreign currency, making sure that foreign reserve could only be used to buy basic commodities for required for economic development. (S. Hilton, 1975)

Value of currency was allowed to depreciate. This move was aimed to make countries exports cheaper and imports expensive. This move was nice because the demand for countries exports could increase hence foreign currency could be obtained. On the other hand imports could become expensive this could discourage citizens from importing. Consequently, they could purchase domestically produced goods hence aggregate demand could raise. The economic advantages of this move could be only reaped in long run because primary producing economies product demand elasticity is less than one meaning that the J curve phenomenon occurs resulting to short run deficit of the balance of payment.

The expansionary steps taken were appropriate because they could not bring bout inflation due the low world demand. This means that demand pull inflation could not occur hence commodity prices could not raise significantly.

The expansionary monetary moves made by the government brought the following positive economic and political implications: investors got ability to obtain loans; these loans were charged lower interest rates making it possible for investors to expand productivity consequently increasing employment. The citizens then employed could make the government popular hence create conducive political climate which can accommodate investment. A. Taylor (1999)

Government put in place ways aimed at stimulating exports. This economic development strategy is known as high primary exports strategy. Its aim is to increase export so as to earn enough foreign currency which will enable import of machinery and other goods not produced domestically. The side

effect of this policy is that it is not sustainable in longrun because primary export fetches very little prices in word market as compared to manufactured commodities. This policy calls for intensive advertising of countries exports. The problem is where this commodity will be sold given that almost all countries are facing economic recession.

Primary producing nations also adopted deficit budget financing . This move was made to make sure that the government revenue was not necessarily obtained from taxation. This means that some money will be externally obtained to finance government activities like infrastructure development. This helps to create employment and subsequently increase aggregate demand. Increased aggregate demand will lead to reduction of buffer stocks. Government investment in infrastructure lays the foundation for sustainable economic development. Strong infrastructure also attracts foreign investors who can increase investment in a country hence subsequent exploitation of idle resources.

The government took active role in price control especially for basic commodities for example Brazil controlled production of coffee so as to check the price not to fall. The economy at large was therefore centrally planned thus the economy was only allowed to produce what the market can sustain. The buffer stock was therefore bought by government and stored or even damaged like in a case were Brazil burned six million coffee bags.

Treaties were formed between some primary producing countries and industrialized countries so that market could be assured egg Argentine and Britain Roca-Runciman treaty

Primary producing nations were anxious in developing domestic industries.

This move was made to avoid extensive external dependency. Local industries could create market for local raw materials which could not be got in foreign markets. In addition locals could obtain employment. The idea of having these industries had also the aim of increasing value meaning that the country could earn more from international markets. This is due to the fact that they will be more competitive. This goal realized by the governments by shielding young domestic industries from foreign competition. This move was intensively applied in Brazil such that by 1983 eighty five percent of consumer goods were domestically produced. Though this was a brilliant idea this government's move worsened the depression because every country increased its quota system. Inward looking economy strategy policy of economic development cannot be sustainable in long run. Every primary producing country made a move to decrease foreign participation in all its important economic sectors for example Brazil took control full control over its telephone industry, gas and agriculture.

Egypt imposed gold export restrictions. This prevented indebted peasant from selling gold to foreigners hence there was no out pouring of its gold reserve. The government thus used this reserve to fight economic deflation. The main commodity exported was cotton grown by absentee land lord protected by the government. The prices of cotton fell during this time of depression but its production was not affected because its demand remained constant.

Taxation on land remained the same over this period because the government was entitled to use the proceedings to service foreign loans. It is only the rural poor who suffered from this depression the urban who had

fixed salaries were never affected. This expanded the gap between the rich and the poor. This move made to control gold reserve was necessary for it decreased the effects that could be brought by depression

It noticeable that most of these primary producing countries were able to make sound economic policies that successfully shunned great implications of this depression. The main economic policies which helped these nations were the adoption expansionary monetary policy and abandonment of gold policy, expansionary fiscal policies which includes deficit budget financing, issuing subsidies to main industries, tax reductions. The only insensitive policies were nationalization of industries and central planning of the economy for political purposes without considering the economic implication. Generally these countries were able to respond to the effects of the depression successfully regardless of the longevity the great depression.

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