

# Analysis of the causes of the great depression



**ASSIGN  
BUSTER**

Imagine waking up one morning, only to find out that all your investments and savings are completely gone. Bare in mind, this is before the era of the Reconstruction Finance Corporation, so if your bank you invested your money in collapsed, you didn't get any money back. This is exactly what happened to millions of Americans during the 1930's. This era was called the Great Depression. Many factors played a role in bringing about the depression; however, the main cause for the Great Depression was the combination of the greatly unequal distribution of wealth throughout the 1920's and 30's, and the extensive stock market speculation that took place during the 1930's. A few other notable factors of the great depression are, structural weaknesses, overproduction, and the global economic and trade networking just kept the depression going. The resulting period ranked as the longest and worst period of high unemployment and low business activity in modern times. The Great Depression was the worst economic slump ever in U. S. history, and one that spread to virtually the entire industrialized world. Banks, stores, and factories were closed and left millions of Americans jobless, homeless, and penniless. Many people came to depend on the government or charity to provide them with food. It led to a sharp decrease in world trade as each country tried to protect their own industries and products by raising tariffs on imported goods. The economy continued to fall almost every month.

At first the stock market was an important but not the dominant influence. But however, by 1929 the market became the symbol of the nation's prosperity and an icon of American business culture. Everything was going great; the stock prices reached what looked to be a permanently high

plateau. In September of that year the market began to slide, but people ignored the signs. But on October 29, 1929, "Black Tuesday", the stock market took a huge fall. More than 16 million shares changed hands in frantic trading. Investors soon realized they were heavily in debt so they started to sell their stocks, which led to others doing the same. That was the start of all the panic, everyone started selling but most of them couldn't find buyers. The impact of "Black Tuesday" led to bank failures because speculators who had borrowed from banks to buy their stocks could not repay the loans because they could not sell their stocks. This was the main start of the depression, because it not only wiped out the savings of thousands of Americans, it hurt commercial banks that had invested in the corporate stocks. "The overall economic output declined by 29% from 1929 to 1933 and the US stock market lost 89.5% of its value" (Alexander). Many of the middle class people lost their life savings and had no other way to cope with the crisis. Money was distributed disparately between the rich and the middle-class, between industry and agriculture within the United States, and between the U. S. and Europe. "In 1929, a study done by the Brookings Institute found an astounding 0.1% of the population sharing a combined wealth equal to the lower 42%" (Noble). This over speculation and in the market along with several other key causes of the economic crash led to unemployment levels in the United States to reach 24.9% in 1933.

In the American economy, agriculture was in the worst shape. The farmers had still not fully recovered from the recession of 1920-1921, which made it worse. All the farming equipment was really expensive now and mortgage incurred during the inflationary war years. Because the prices were falling,

farmers weren't getting enough money and had to risk foreclosure. The textile industry, the railroad industry, and mining and lumbering industries were affected too. The textile industry suffered from the decreased demand and excess capacity. The railroad industry had to worry about the shrinking passenger revenues, stagnant freight levels, and inefficient management. Also it was in competition with cheaper forms of transportation. The mining and lumbering industries were producing more than what was being bought. Herbert Hoover had plans to help those ailing industries, but the trade associations that he promoted were ineffectual.

The depression of the United States affected not only itself but had an impact on the rest of the world. And the rest of the world's problems had and affect on us. The international economic system could function as long as American banks exported enough capital to allow European countries to repay their debts and continued to buy American manufactured goods and agricultural products. Because European economies were struggling with large debts and trade imbalances with the United States, by 1931 most European economies collapsed. American companies would cut back production and cut back purchases of raw materials and supplies abroad, this affected many foreign economies too.

All these factors played together to cause an economic nightmare in America and throughout the world. The Great Depression had the highest, worst and longest period of high unemployment ever recorded to date. During an economic depression, all labored institution reduced its labor force to the minimum, stores/banks closed, and small businesses and farms fell into ruin. The United States has experienced short periods of depression followed by <https://assignbuster.com/analysis-of-the-causes-of-the-great-depression/>

periods of prosperity, but the Great depression of the 1930's was a 10-year dilemma. The Family's suffered with no money, food, and some without any homes. The Great Depression affected everyone, all aspects of society. Industries, economies, people, and businesses all affected, all devastated. "The Great Depression became self-perpetuating" (Joel). The more the American economy waited and didn't do anything, the longer people expected the depression to last, and the longer they expected it to last, the more afraid they were to spend or invest their money, which was exactly what was needed to stimulate economic recovery. This tragic event in our history can be studied to help us with our modern day economy and learn how to go about bringing America back to prosperity and growth as FDR conquered the Great Depression with his New Deal using the premise of relief, recovery, and reform.