

The great depression

[Countries](#), [United States](#)



" The Great Depression (1929-39) was the deepest and longest-lasting economic downturn in the history of the Western industrialized world" (The Great Depression-History. com 2012). The great depression is said to have begun after the First World War, It was a time of hardship and uncertainty. Although the great depression began in the United States it spread throughout the globe and affected almost every country. It brought about drastic declines in output, severe unemployment, and serious deflation. Many countries such as Britain, Germany and France came out of the war with large debts to pay, this was due to the fact that they had been borrowing from The United States of America, after its entrance into financial crisis the rest of the countries depending on its financing would inevitably enter down turn and face similar crisis. World War 1 also left many industrialized countries weak and in large debts, they needed to finance the rebuilding of their economies and industries that were damaged during the war, this made it harder for them to recover. There are a number of explanations to as what brought about the great depression in 1929. These are structural and monetary weaknesses as well as a number of specific events that enhanced the effects from one country to another and eventually to all major industrialized countries. What Caused the great depression? The depression was also said to have partially started with the crash of the stock market in the United States on October 29 1929, this was known as the Black Tuesday. This was said to be a major cause for the great depression and within just two months of the stock market crash stock holders had lost nearly \$40 billion dollars.(The Great Depression- top5 causes of the great depression). As a few firms posted their results stock prices fell, this

triggered panic as stock holders tried to sell their shares speculating a further drop in prices. Demand for these shares fell due to the excess supply further forcing prices down. Many banks and financial institutes had invested their clients' money heavily in the stock market, with big losses many banks were forced to declare bankruptcy close down. This further triggered people to rush into withdrawing their savings fearing the bank will close down and they will lose their money, those who took time in doing so lost their money and faced bankruptcy. Throughout the 1930's over 9000 banks failed (The Great Depression- top5 causes of the great depression), most of the banks had uninsured deposits which lead to people losing their money without compensation. Surviving banks thereafter became less willing to give out new loans and credit thus reducing the expenditure in the economy.

Businesses were also affected by this, they had lost money in the stock market as well as in the banks, this lead to many businesses being closed down and declaring bankruptcy. " industrial production in the United States declined 47 percent and real gross domestic product (GDP) fell 30 percent"(<http://www.britannica.com/EBchecked/topic/243118/Great-Depression>) Those businesses that survived were heavily affected too, with unemployment increasing demand for their goods started falling and in return they had to cut back production and lay off workers or reduced wages thus further increasing unemployment and reducing aggregate demand in the economy as a whole. During the 1930's farmers experienced the dust bowl, this was caused by a drought and extensive farming over the years, the storms that came blew away and destroyed their crops leaving farmers without produce to sell or feed their family. The effect on smaller farmers

was more severe because they had taken loans from financial institutes to purchase the land and depended on the harvest to start paying of the loans. With no produce to sell and pay loans the financial institutes were forced to take over the land and close down the farms leaving farmers unemployed and in many cases homeless. It was said that around 300, 000 to 400, 000 farmers migrated from Oklahoma and surrounding states, west to California. In the 1930's people were hesitant to migration, they preferred to stay around areas and people they knew and family. This tells us the severity of the storms. Increased unemployment meant a further decrease in expenditure in the economy and thus leading to a loss in aggregate demand. ([http://useconomy. about. com/od/criticalissues/p/The_Dust_Bowl. htm](http://useconomy.about.com/od/criticalissues/p/The_Dust_Bowl.htm)) The First World War and the great depression have a positive relationship. The effects of the war were the beginning of the great depression. America joined the World War 1 later on during the war, they not only spent less resources fighting but came out of the war still holding the financial capabilities to help finance rebuilding of the countries affected by the war. America gave out loans to countries such as France and Britain to rebuild the country and Germany was tied down into paying large war adjustments which put them on a step backwards. American banks were willing and able to give such loans up and until their banks started failing and the economy started experiencing a financial crisis. Following this the banks started asking the countries to repay the loans and stopped giving out more loans, this put immense pressure on the countries in debt especially those affected by the war first hand. This lead to a spread of the depression. The American government set up the Federal Reserve System to give out loans to

commercial banks to support them. The Federal Reserve System gave the go ahead to create federal notes that increase our paper money supply.

Between 1929 and 1939 the Federal Reserve raised interest rates in order to tackle speculation in the wall street which was also known as the " bubble".

Under the gold standard, each Country set a value of its currency in terms of gold and took monetary actions to defend the fixed price.(http://uspolitics.about.com/od/economy/tp/what_caused_great_depression.htm?en_us&output=json)

When the federal reserve increased money supply investors started losing confidence in America staying with the gold

standard, this meant large amounts of gold outflows from the country. This devalued the dollar and increased the prices of domestically produced goods thus increasing rates of inflation Encyclopædia Britannica Inc., 2012" Great Depression". Countries across the globe handled the depression differently, it was mostly dependent on the type of leader and party in charge of running and governing the country. Some involved military dictatorship, or fascism along with militarism, totalitarian communism and welfare capitalism.

Western Industrialized countries cut back on purchase of raw materials and international trade. This also led to a fall in prices of popular trading commodities such as coffee, tin, and cotton by almost 40 percent. Military dictatorship was famous amongst Central American countries, many countries that experienced social unrest moved to military dictatorship to restore order. Welfare capitalism was another response by countries, this was moved upon by France, Canada and the united kingdom. Another response was fascism, this was taken up by countries such as japan and mainly Germany. In japan the military seized control in the 1930's by taking

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over Manchuria which was abundant in raw materials and coastal regions of China. Totalitarian communism was the next type of response to the depression and was used by the Soviet union and Russia. In the Soviet Union Joseph Stalin took control without being elected, he set up a five year plan to recovery by industrialization of state controlled firms, everything was produced to as the government's desire. The effects of the great depression were also severe in other countries. United Kingdom was still recovering from the effects of World War 1 which ended in 1919 when the great depression started in the United States of America and started spreading across borders to other countries. In April 1925 Winston Churchill restored the Sterling to the gold standard at the prewar rate, this made the sterling convertible to its value in gold. However it made British exports more expensive on the world market thus reducing the amounts of exports which in turn reduced the level of economic growth. As the demand for exports fell industries started cutting down costs to become more competitive by cutting workers' wages which lead to a less equality and increasing unemployment. After the stock market crash in America there was a decrease in global trade and commodity prices. Countries and there governments were in financial troubles and the only country that had the ability to lend money was now in a crisis too, thus leaving them with no creditor. To protect their markets and industries governments started creating international trade barriers and tariffs which had a big effect on British industries. As demand for British goods fell demand for labor with in Britain fell too thus further increasing the levels of unemployment. However the government overcame this problem by dropping the gold standards in 1993. The economy slowly started to

recover as exports became more competitive compared to countries still using the gold standard. The government also started giving unemployment benefits to increase consumer spending in order to reduce inequality and create local demand for goods. Germany was a planned economy during the late 1920's and was governed by the Nazi Party and military. This lasted until the end of the First World War which was when Germany changed to a democracy known as the Weimar Republic. After the war the Treaty of Versailles was formed which stated Germany must pay war reparation, however it was unable to do so and so the major industrial area, the Ruhr Valley was taken over by France. The French eventually moved out after pressure was placed to do so, USA lent the German government money to rebuild their economy. This started improving the state of the economy between 1924 and 1929. Germany itself experienced a Wall Street crash in 1929, this was devastating for both America and Germany because America had given Germany huge loans in the Dawes Plan in 1924 and the Young Plan in 1923. America then asked Germany to start repaying the loans within 90 days. Germany was in no position to do so and the only way it could be achieved was to borrow from elsewhere which was impossible, France and Britain were still recovering and Russia was still in desperate state and embarking on the 5 year plan to recovery. (http://www.historylearningsite.co.uk/weimar_depression_1929.htm). As a result companies across Germany went bankrupt and the unemployed started increasing in millions. The German economic system remained largely capitalistic and there was a huge role involving the government to raise and run the economy. Manufactures were however governed on what and how to produce goods

and also at what price the goods should be retailed. The German state was also able to move labour around industries for optimal use making it an overall mixed economy. The Soviet Union was a centrally planned economy with no unemployment and with as much as wealth invested in economic growth as the government could afford. While the world was facing the effects severe depression, the Soviet Union was pursuing the five year plan of rapid industrial growth. The Soviet Union was regarded an economic powerhouse during the 1930's. The Soviet Union attracted thousands of workers from capitalist nations because of the high availability of jobs and the capitalist countries having high unemployment. How did it all end? As stated earlier one of the main causes of the great depression was due to the fact that aggregate demand in various economies fell, investments fell thus leading to loss of jobs and rising unemployment. To end the great depression the United States went to war, thus the beginning of the world war 2. Some over 12 million Americans were sent into the military and another 12 million stayed back and helped in other defense related industries connected to the war. This covered up the 17 million unemployed people in 1939 and could be said to be the main reason to the end of the great depression(<http://www.thefreemanonline.org/columns/what-ended-the-great-depression/>) However some economists believe the war didn't get rid of the great depression but only postponed the issue of recovery, the war traded unemployment for national debt which rose from \$49billion in 1941 to \$260 billion in 1945. Could it happen again? It is speculated that a recession on the scale as the great depression of the 1920's could not happen again. Financial institutes have experienced the causes and effects of a depression getting out of

control and would have placed measures if it starts reoccurring. However with almost 10 years of easy lending, a national boom in prices and swelling stock markets, following by a contraction in the economy, credit and housing prices it could be said to be very similar to the causes of the great depression. Currently with countries such as America and France and other NATO members constantly at war in countries such as Iraq and Afghanistan fighting terrorism it could be said to be similar to the way countries during the great depression created jobs and injected money into the economy creating demand for their goods and reducing unemployment. (<http://normantranscript.com/columns/x1361426543/The-Great-Depression-and-today-s-market-eerily-similar>) The main reason for the spread of the crisis from one country to another was due to international trade, in the current global economy activists such as the world trade organization and international monetary fund promote globalization and the opening up of borders for trading. The increase in global trade may lead to a quicker spread of financial crises from one country to another thus making the possibility of another ' great depression'. Another point which makes it debatable whether the great depression could take place again is the fact that even though the world is facing a financial crises not all countries will be affected severely, for example China whose GDP rose from 25731 billion CNY in 2007 and had a growth rate of 13% to a GDP of 30067 billion CNY in 2008 with a growth rate of 9% (http://www.chinapolitik.de/studien/china_analysis/no_67.pdf). And related to the same point Australia hasn't been severely affected as well this is because it has big amounts of trading with China and not America and Europe. However if the

3-4 major countries across the world for example America, Germany, India face recession it could spread to many other countries across the world that have trading ties with them. The Great Depression - History. com Articles, Video, Pictures and Facts. 2012. The Great Depression - History. com Articles, Video, Pictures and Facts. [ONLINE] Available at: <http://www.history.com/topics/great-depression>. [Accessed 01 May 2012]. Great Depression - Top Five Causes of the Great Depression. 2012. Great Depression - Top Five Causes of the Great Depression. [ONLINE] Available at: <http://americanhistory.about.com/od/greatdepression/tp/greatdepression.htm> What Caused The Great Depression : Political History - The Great Depression. 2012. What Caused The Great Depression : Political History - The Great Depression. [ONLINE] Available at: http://uspolitics.about.com/od/economy/tp/what_caused_great_depression.htm?en_us&output=json. [Accessed 01 May 2012]. " Great Depression". Encyclopædia Britannica. Encyclopædia Britannica Online. Encyclopædia Britannica Inc., 2012. Web. 01 May. 2012 . Weimar Republic and the Great Depression. 2012. Weimar Republic and the Great Depression. [ONLINE] Available at: http://www.historylearningsite.co.uk/weimar_depression_1929.htm. [Accessed 01 May 2012]. What Ended the Great Depression? | The Freeman | Ideas On Liberty. 2012. What Ended the Great Depression? | The Freeman | Ideas On Liberty. [ONLINE] Available at: <http://www.thefreemanonline.org/columns/what-ended-the-great-depression/>. [Accessed 01 May 2012].