The causes of the great depression

Business

A strong economy is a vital component of a stable and powerful country. Throughout history, most countries have gone through periods of economic struggles at one point or another. The overall economy of the United States grew tremendously since the country was first formed, but as the nation developed, there have been many setbacks and periods of economic downturns and recessions. Some of the worst include the Panic of 1893, Recession of 1937-1938, and the Great Recession of 2007-2009.

The most extreme example of a faltering U. S economy occurred in the early 1930s, one of the worst times for the people living in the U. S. During this time, many Americans were in an extremely unfortunate situation. Americans had to survive in terrible conditions, living in poverty and not having adequate food or shelter. According to multiple credible sources, there were many different causes of the Great Depression, however, scholars disagree as to the main cause of our worst national economic crisis.

Most researchers can agree that the Stock Market Crash of 1929 marked the start of the Great Depression and contributed to the disaster. In " The Stock Market Crash of 1929: A Review Article," Maury Klein describes the depth of the stock market panic which occurred. Klein commented on the daily stock market trading sessions between October 23 and October 31, 1929. He observed, " During these eight frantic seasons, a total of nearly 70. 8 million shares were traded… [and] in broader terms, the crash extended until November 13… [and] the Dow lost 39 percent," (Klein 325-326).

This represented a widespread, drastic drop in stock prices within a short period of time. The reason for the drop in stock prices was that investors realized that stock prices were much higher than the value of the companies the stock represented. In other words, as Eugene N. White stated in " Stock Market Boom and Crash of 1929 Revisited," " The October panic can be traced to early signs of a recession that made the dissonance between dividends and stock prices clear" (White 83). The level of stock prices could not be justified by the amount of dividends being paid and therefore there was widespread selling at the same time, so the market crashed.

Although virtually all researchers agree on the Stock Market Crash as the beginning of the Great Depression, it can be traced back to the earlier event of World War I. The aftermath of WWI was a major cause of the Great Depression. After the mobilization during World War I, and following the victory, the United States became one of the most powerful economies in the world. The United States became a creditor nation lending money to the worn-torn countries of Europe. The stability and prosperity of the 1920s appeared extraordinary to contemporary observers," (White 69), and the economy grew at a fast rate after World War I. However, many of the countries of Europe had been terribly damaged in the war and experienced economic downturns.

The devastated European countries needed to spend their funds on rebuilding and were unable to spend their money on American goods. The long-term result was that, American companies could not sell as many of their products and were ultimately less profitable. The demand for American goods dropped. After the stock market crashed in 1929, the United States suffered the widespread failure of banks and a dramatically higher level of unemployment. In the article, " The Great Depression: Why it Started, Continued and ended," Steve Byas states, " Nine thousand failed banks and unemployment at a fourth of the workforce" (Byas 33). Many people lost their jobs and were unable to make money to support their families.

With unemployment at a very high rate, people were driven into poverty, unable to support themselves or their families. In the article, " Revisiting The Great Depression," Robert J. Samuelsonstates, " Unemployment, for example, reached nearly 12 percent in the recession year of 1921 and was 8. 9 percent in 1923" (Samuelson 41). Unemployment continued to grow and became even worse.

More people were losing jobs than ever before and people lived without necessities. High unemployment and the failure of the U. S banks characterized the Great Depression. One of the most popular mainstream theories of the Great Depression is the Keynesian theory. John Maynard Keynes, a British economist, wrote a book, The General Theory of Employment, Interest and Money, introducing his theory to explain the Great Depression.

When businesses do not expect there to be profits in the future because there is less demand and spending by consumers, then the businesses will not invest in future production. When many businesses are not investing in production, there are less jobs and the overall economy suffers. " The stock market crash of 1929 shook business confidence, further reducing investment. Real gross private domestic investment plunged nearly 80% between 1929 and 1932" (" The Great Depression and Keynesian Economics"). During the Great Depression, when the stock market crashed, the public sought to avoid losses by keeping their money and avoiding stocks.

The large-scale loss of confidence in the stock market and the economy led to a sudden reduction in spending and investment. With little spending or investment, businesses were not able to expand and grow. Another mainstream theory, the Monetarist theory, was explained by Milton Friedman and Anna Schwartz in A Monetary History of the United States, 1867-1960. This theory is based on the idea that the Great Depression was the result of a shrinking money supply. Friedman and Schwartz argued that U.

S. citizens wanted to hold more money than supplied by the Federal Reserve Bank of the United States. Because of this, people hoarded their money and spent less. This caused a disruption in production and employment and led to economic disaster. Aside from the Keynesian and Monetarist theories, there are many other theories of what caused the Great Depression. In contrast to the Monetarist theory, James Grant’s book, The Forgotten Depression, argued the Federal Reserve was lending too much money and should have allowed the free market to set interest rates.

The Austrian theory developed by Ludwig von Mises similarly explained that the Great Depression was caused by artificially low interest rates set by government instead of the free market. The “ under-consumption” theory explained that the cause of the Great Depression was low wages and that the way to prosperity was high wages. This last theory was adopted by the Hoover and Roosevelt administrations, which attempted to impose regulations and set minimum prices. The theory of “ regime uncertainty,” explained by Robert Higgs, was that businesses stopped investing or expanding because they were concerned about what government regulations would affect them in the future. William Z. Foster, the head of the American Communist Party, said that the Great Depression was caused by the failure of the capitalist system and the solution was a communist government.

The Great Depression was a major economic struggle during the 1930s. It was a dramatic event in U. S. history, which had a terrible effect on millions of Americans. Because this was such an impactful event on American history, many scholars have tried to create theories to explain the causes of the Great Depression.

It remains unclear, however, exactly how this crisis came to be. It is important to study the Great Depression in order to try to prevent such a tragic event from occurring in the future. Hopefully the lessons learned from studying the Great Depression can lead to the United States maintaining a better economy in the future.