

Great depression assignment

[History](#)



Importantly, although the Wall Street Crash - which took place in October 1929 - is often seen as an interchangeable term for the Great oppression, this event is simply one of the causes emanating from the US, which led to the longest and deepest worldwide recession of the 20th century. The Great Depression may have come soon after the collapse of the stock market but this does not mean it happened because of it; there are many other factors at play that resulted in a more far-reaching economic crisis.

Overproduction One of the critical faults that led to the Great Depression was overproduction. This was not just a problem in industrial manufacturing, but also an agricultural issue. From as early as the middle of the 1920s, American farmers were producing far more food than the population was consuming. As farmers expanded their production to aid the war effort during WWI they also mechanized their techniques, a process which both improved their output but also cost a lot of money, putting farmers into debt.

Furthermore, land prices for many farmers dropped by as much as 40 per cent - as a result, the agricultural system began to fail throughout the 1930s, leaving large sections of the population with little money and no work. Thus, as demand dropped with increasing supply, the price of products fell, in turn leaving the over-expanded farmers short-changed and farms often foreclosed. This saw unemployment rise and DOD production fall by the end of the 1930s. While agriculture struggled, industry soared in the decade preceding the Wall Street Crash.

In the 'boom' period before the 'bust', a lot of people were buying things like cars, household appliances and consumer products. Importantly,

however, these purchases were often made on credit. And as production continued apace the market quickly dried up; too many products were being produced with too few people earning enough money to buy them - the factory workers themselves, for example, could not afford the goods coming out of the factories they worked in.

The economic crisis that soon would engulf Europe for reasons to be explained, meant that goods could not be sold across the Atlantic either, leaving America's industries to create an unsustainable surplus of products. Uneven incomes As already suggested, in America there was a widening disparity between those earning lots of money and those still struggling in relative poverty. The top one per cent of workers in 1929 saw their income rise by 75 per cent; the bottom 99 per cent meanwhile only enjoyed a 9 per cent rise in wages.

So while industrial production rose by 50 per cent at the end of the sass, wages did not keep pace meaning the expendable income was not available to purchase what was being created. While often said to have been the 'Roaring Twenties', this was not common to the entire population and this gap between the wealthy and the poor - the latter making up the vast majority of the country - was an underlying factor in why the US economy collapsed in on itself. The Great Depression is characterized by the fact it incorporated almost all of the population, most of which were the working classes.

The poor were unable to cope with the economic downturn and widespread unemployment that came in 1931 and 1932, meaning they required aid from

the ash-strapped authorities, something which deepened the financial problems even further and was at the heart of the lasting depression. Wall Street Crash Black Tuesday - 29 October 1929 - was the day the US stock market crashed, an event which profoundly resonated not just in America but around the developed world.

The boom of the stock market, one of the first real examples of modern capitalist economy, was largely built around speculation; investors would typically buy stock that they believed was going to rise quickly and when it did they would sell their stocks. Furthermore, many people bought stocks on credit - the investor only required to have five per cent of the value of the stocks they bought, with the rest being supplied by a loan - this buying on credit is otherwise known as 'buying on margin'.

A market built on speculation coupled with the short-term outlook of the investors was not a manageable way to run a stock market and did not afford the consistency and stability required for the system to yield benefits for the wider economy. In March 1929, when many of the middle classes who had a lot invested in the market, suddenly became nervous and sold their stock, there was a mini-crash. This highlighted the weak foundations of Wall Street.

While the market recovered to record highs in early September 1929, it was not to last - on 20 September the London Stock Exchange crashed again and this truly tested the nerve of investors. A month later, on 24 October, mass panic saw the market lose 11 per cent of its value before trading had even begun. This resulted in a perpetuating state of panic and in the following five

days until Black Tuesday (29 October) people sold their stock en masses - on Black Monday and Black Tuesday alone the market lost \$30 billion, triggering a collapse of the stock market and with it much of America's economic structure.

Importantly, while the Wall Street Crash meant that many of the middle and upper classes lost money - and this was certainly a factor in causing the Great Depression - it is not solely responsible for the economic crisis that engulfed all levels of society across developed countries. Weak banking system A major issue with America's economic system, above and beyond speculative margin buying, was its weak banking system. The country had too many small banks, which did not have the resources to cope with the high demand of people wanting to take their money out when they got nervous about the state of the stock market.

In 1930 a wave of banking closures swept through the mid-eastern states of the US for this reason. With banks having to sell assets, borrow off other banks or shut down, lending and credit dried up - as this was a large part of fuelling America's 'boom' period, when it came to an end so too did the rush of consumer purchasing. The knock-on effect of people not buying products because they had no money or no credit was that factories had to close or sack workers, leading to mass unemployed, perpetuating the problem into a downward spiral.

By 1932 many businesses were out of work, banks were closed and 20 per cent of the American workforce were unemployed. European recession As America witnessed a turbulent decade of boom and bust in the sass and

<https://assignbuster.com/great-depression-assignment-essay-samples/>

early on, Europe too suffered from its own economic problems. Most of the economies were left crippled by the effects of WWI, which had seen the workforces depleted and large amounts of debt incurred, mainly owed to the US.

When America's economy faltered and it needed money to prevent its ongoing deflation, it called on Britain and France (among other countries) to repay their debts while also making Germany pay the war reparations it had been left with as a result of the Treaty of Versailles. The fragile economies of Western Europe were not able to survive without the money they had relied on from the US. As lending from across the Atlantic stopped and President Herbert Hoover requested the debts to be repaid, these European economies suffered a similar fate as their wartime allies.

None of these countries were able to buy America's consumer goods, a problem exacerbated by the fact that America raised tariffs on imports to an all-time high, which all but ended world trade at a time when trade and economic stimulus was needed the most. European economies collapsed when they were already struggling to rebuild themselves; unemployment evils rose, products became overproduced with fewer people able to buy them, the value fell, and deflation ensued as the economic structure collapsed in on itself.

This pattern, first seen in America, spread to much of the developed world. Hoover's failures As has been established, the Great Depression was the result of a multitude of socio-economic factors over a number of years, not one single event. As such, the finger of blame has often been pointed at

<https://assignbuster.com/great-depression-assignment-essay-samples/>

Herbert Hoover, President of the US from 1929-1933; his term as President coincided with the period in which action needed to be taken to prevent deflation from escalating and government needed to stabilize a shaky economy.

Instead Hoover's policies and actions - and he did work hard to try find a solution to the economic problems - are often argued to have worsened the issue around the world, with not enough being done to prevent the crisis in America getting to the scale it did. Moreover, his decisions then impacted on other Western countries, which is what brought the depression to a truly 'great' level. Although he did try launching initiatives and investing money back into schemes to encourage lending and unemployment - something he often is not credited with enough - these end to be seen as being too little, too late.

His decision to increase tariffs on imports through the Smooth-Hawley tariff stifled trade with other countries and shrank the size of the market American manufacturers could sell to. Furthermore, under Hoover the federal government raised its discount rate, making credit even harder to come by. Other actions he took also came too late - plans made in 1932 could not do enough to bail out banks and put people back in work as the depression had fully taken effect. Hoover's lack of a proactive approach was exposed by the more substantial action taken by Franklin D Roosevelt, who succeeded him as President.

Initiatives like the New Deal put large numbers back in work and stopped the downward spiral of unemployment and deflation. The gold standard The

decision to return to and then stick with the gold standard after WWI by Western nations is often cited as a key factor in the outbreak of the Great Depression. The gold standard is a system in which money is fixed against an actual amount of gold. In order for it to work, countries need to maintain high interest rates to attract international investors who bought foreign assets with gold.

When this stops, as it did at the start of the 1930s, governments often must abandon the gold standard to prevent deflation from worsening – but when this decision had to be made by all countries in order to maintain fixed exchange rates it wasn't, and the delay in abandoning the gold standard let economic problems worsen and the size and scale of the Great Depression increase. Conclusion What caused the Great Depression is a subject still keenly contested by historians and economists today. It shaped much of the period between the two world wars for most of the developed world and still serves as a lesson on various economic practices.

The temptation to view the Great Depression as an event centered around the US stock market must be avoided though; it was a global depression that had many of its roots in 1929 and early 1930s America but the impacts were felt throughout Europe as well. The reasons above outline many of the most important factors that first triggered and then exacerbated the economic crisis. It is vital that the wider picture of overproducing industry, stifled trade, rising unemployment, failing banks and ineffective government policy is taken into consideration in order to gain a holistic and accurate understanding of why the Great Depression took place.