The Great Depression
AP World History
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A worldwide depression struck countries with market [capitalist] economies at the end of the 1920s. Although the Great Depression was relatively mild in some countries, it was severe in others, particularly in the United States, where, at its height in 1933, 25 percent of all workers and 37 percent of all nonfarm workers were completely out of work. Some people starved; many others lost their farms and homes. Although the U.S. economy began to recover in the second quarter of 1933, the recovery largely stalled for most of 1934 and 1935. A more vigorous recovery commenced in late 1935 and continued into 1937, when a new depression occurred. The American economy had yet to fully recover from the Great Depression when the United States was drawn into World War II in December 1941. Because of this agonizingly slow recovery, the entire decade of the 1930s in the United States is often referred to as the Great Depression.

The Great Depression also changed economic thinking. Because many economists and others blamed the depression on inadequate demand, the Keynesian view that government could and should stabilize demand to prevent future depressions became the dominant view in the economics profession for at least the next forty years. Keynesians argue that the government should lower taxes and intervene in the economy in order to keep prices low, thereby increasing demand for products. Although an increasing number of economists have come to doubt this view, the general public still accepts it.

Interestingly, given the importance of the Great Depression in the development of economic thinking and economic policy, economists do not completely agree on what caused it. Recent research has led to an emerging consensus on why the contraction began in 1928 and 1929. There is less agreement on why the contraction phase was longer and more severe in some countries and why the depression lasted so long in some countries, particularly the United States. The Great Depression that began at the end of the 1920s was a worldwide phenomenon. By 1928, Germany, Brazil, and the economies of Southeast Asia were depressed. By early 1929, the economies of Poland, Argentina, and Canada were contracting, and the U.S. economy followed in the middle of 1929. The larger factor that tied these countries together was the international gold standard.

In World War I, European nations went off the gold standard in order to print money, and the resulting price inflation drove large amounts of the world's gold to banks in the United States. The United States remained on the gold standard without altering the gold value of the dollar. American dollars were worth more, and in high demand, leading to fewer dollars in circulation in the United States. Foreign countries could not buy many American goods because the American

dollar was worth so much and Americans could not buy much because dollars were in short supply. So inflation impacted Europe and prices fell in the United States, leading to a situation where there was little demand for American goods and a contraction of the economy. The Treaty of Versailles certainly had a large impact on the onset of the Great Depression in the world. Germany had little money after the war due to reparations and their trading partners, mainly Italy and Austria, suffered as well.

The onset of the contraction led to the end of the stock market boom and the crash in late October 1929. After nearly a decade of optimism and prosperity, the United States was thrown into despair on Black Tuesday, October 29, 1929, the day the stock market crashed and the official beginning of the Great Depression. As stock prices plummeted with no hope of recovery, panic struck. Masses and masses of people tried to sell their stock, but no one was buying. The stock market, which had appeared to be the surest way to become rich, quickly became the path to bankruptcy.

And yet, the Stock Market Crash was just the beginning. Since many banks had also invested large portions of their clients' savings in the stock market, these banks were forced to close when the stock market crashed. Seeing a few banks close caused another panic across the country. Afraid they would lose their own savings, people rushed to banks that were still open to withdraw their money. This massive withdrawal of cash caused additional banks to close. Since there was no way for a bank's clients to recover any of their savings once the bank had closed, those who didn't reach the bank in time also became bankrupt.

Businesses and industry were also affected. Having lost much of their own capital in either the stock market crash or the bank closures, many businesses started cutting back their workers' hours or wages. In turn, consumers began to curb their spending, refraining from purchasing such things as luxury goods. This lack of consumer spending caused additional businesses to cut back wages or, more drastically, to lay off some of their workers. Some businesses couldn't stay open even with these cuts and soon closed their doors, leaving all their workers unemployed. However, the stock market collapse did not cause the depression; nor can it explain the extraordinary length and depth of the American contraction. Economists are still divided on why the depression lasted so long.

The collapse of the U.S. economy did have a profound impact upon the world economy. By the 20th Century, the U.S. was the largest trading power in the world. Without U.S. trade, the economies of most world countries suffered greatly. Although there are debates about the causes of the collapse of the U.S. economy, there is little doubt that the collapse of the world economy after 1929 was a consequence of the lack of U.S. trade.

The political impact in the United States was the election of a new government, that of Franklin Delano Roosevelt in 1932. Roosevelt believed that government intervention in the economy would help stimulate the economy. He passed a series of spending programs, called the “New Deal” that he hoped would bring the United States out of the depression.

The Depression had a major impact upon the world. Japanese militarism went unchecked because no one had the ability to respond, farmers in developing countries saw prices crash as demand for foreign goods plummeted, and people became more willing to support radical ideas such as communism and fascism as the Depression fueled their misery.