3.4 The Great Depression

The Great Depression began around 1929 and lasted till the mid- 1930s. During this period most parts of the world experienced catastrophic declines in production, employment, incomes and trade. The exact timing and impact of the depression varied across countries. But in general, agricultural regions and communities were the worst affected. This was because the fall in agricultural prices was greater and more prolonged than that in the prices of industrial goods. The depression was caused by a combination of several factors. We have already seen how fragile the post-war world economy was. First: agricultural overproduction remained a problem. This was made worse by falling agricultural prices. As prices slumped and agricultural incomes declined, farmers tried to expand production and bring a larger volume of produce to the market to maintain their overall income. This worsened the glut in the market, pushing down prices even further. Farm produce rotted for a lack of buyers. Second: in the mid-1920s, many countries financed their investments through loans from the US. While it was often extremely easy to raise loans in the US when the going was good, US overseas lenders panicked at the first sign of trouble. In the first half of 1928, US Many years later, Dorothea Lange, the photographer who shot this picture, recollected the moment of her encounter with the hungry mother: 'I saw and approached the hungry and desperate mother, as if drawn by a magnet … I did not ask her name or her history. She told me her age, that she was thirty-two. She said that they (i.e., she and her seven children) had been living on frozen vegetables from the surrounding fields, and birds that the children killed … There she sat … with her children huddled around her, and seemed to know that my pictures might help her, and so she helped me …' From: Popular Photography, February 1960. Box 3 homeless and hungry, during the Great Depression, 1936. Courtesy: Library of Congress, Prints and Photographs Division. India and the Contemporary World overseas loans amounted to over $ 1 billion. A year later it was one quarter of that amount. Countries that depended crucially on US loans now faced an acute crisis. The withdrawal of US loans affected much of the rest of the world, though in different ways. In Europe it led to the failure of some major banks and the collapse of currencies such as the British pound sterling. In Latin America and elsewhere it intensified the slump in agricultural and raw material prices. The US attempt to protect its economy in the depression by doubling import duties also dealt another severe blow to world trade. The US was also the industrial country most severely affected by the depression. With the fall in prices and the prospect of a depression, US banks had also slashed domestic lending and called back loans. Farms could not sell their harvests, households were ruined, and businesses collapsed. Faced with falling incomes, many households in the US could not repay what they had borrowed, and were forced to give up their homes, cars and other consumer durables. The consumerist prosperity of the 1920s now disappeared in a puff of dust. As unemployment soared, people trudged long distances looking for any work they could find. Ultimately, the US banking system itself collapsed. Unable to recover investments, collect loans and repay depositors, thousands of banks went bankrupt and were forced to close. The numbers are phenomenal: by 1933 over 4,000 banks had closed and between 1929 and 1932 about 110, 000 companies had collapsed. By 1935, a modest economic recovery was under way in most industrial countries. But the Great Depression's wider effects on society, politics and international relations, and on peoples' minds, proved more enduring.