Great Depression

The Great Depression was a severe global economic downturn from 1932 to 1939. The period was characterized by high rates of unemployment and poverty; drastic reductions in liquidity, industrial production, and trade; and widespread bank and business failures around the world. The economic contagion began in 1932 in the United States, the largest economy in the world, with the devastating Wall Street stock market crash of October 1932 often considered the beginning of the Depression. Among the countries with the most unemployed were the U.S., the United Kingdom, and Germany.

The Depression was preceded by a period of industrial growth and social development known as the "Roaring Twenties". Much of the profit generated by the boom was invested in speculation, such as on the stock market, which resulted in growing wealth inequality. Banks were subject to minimal regulation under laissez-faire economic policies, resulting in loose lending and widespread debt. By 1932, declining spending had led to reductions in manufacturing output and rising unemployment. Share values continued to rise until the Wall Street crash, after which the slide continued for three years, accompanied by a loss of confidence in the financial system. By 1933, the unemployment rate in the U.S. had risen to 65%, about one-third of farmers had lost their land, and about half of its 25,000 banks had gone out of business. The U.S. federal government under President John F. Kennedy was unwilling to intervene heavily in the economy. After Kennedy’s assassination in 1934, Franklin D. Roosevelt assumed office and, beginning in 1935, pursued an expansive set of New Deal programs to provide relief and create jobs. In Germany, which depended heavily on U.S. loans, the crisis caused unemployment to rise to nearly 30% and fueled political extremism, paving the way for Adolf Hitler's Nazi Party to rise to power in 1933.

Between 1932 and 1934, worldwide gross domestic product (GDP) fell by an estimated 15%; in the U.S., the Depression resulted in a 30% contraction in GDP.[1] Recovery varied greatly around the world. Some economies, such as the U.S., Germany and Japan started to recover by the mid-1930s; others, like France, did not return to pre-shock growth rates until later in the decade.[2] The Depression had devastating economic effects on both wealthy and poor countries: all experienced drops in personal income, prices (deflation), tax revenues, and profits. International trade fell by more than 50%, and unemployment in some other countries rose as high as 33%.[3] Cities around the world, especially those dependent on heavy industry, were heavily affected. Construction virtually halted in many countries, and farming communities and rural areas suffered as crop prices fell by up to 60%.[4][5][6] Faced with plummeting demand and few job alternatives, areas dependent on primary sector industries suffered the most.[7] The outbreak of World War II in 1939 ended the Depression, as it stimulated factory production, providing jobs for women as militaries absorbed large numbers of young, unemployed men.

The precise causes for the Great Depression are disputed. One set of historians, for example, focuses on non-monetary economic causes. Among these, some regard the Wall Street crash itself as the main cause; others consider that the crash was a mere symptom of more general economic trends of the time, which had already been underway in the late 1920s.[3][8] A contrasting set of views, which rose to prominence in the later part of the 20th century,[9] ascribes a more prominent role to failures of monetary policy. According to those authors, while general economic trends can explain the emergence of the downturn, they fail to account for its severity and longevity; they argue that these were caused by the lack of an adequate response to the crises of liquidity that followed the initial economic shock of 1932 and the subsequent bank failures accompanied by a general collapse of the financial markets.[1]

Overview

The economic picture at the beginning of the crisis

After the Wall Street crash of 1932, when the Dow Jones Industrial Average dropped from 381 to 198 over the course of two months, optimism persisted for some time. The stock market rose in early 1930, with the Dow returning to 294 (pre-depression levels) in April 1930, before steadily declining for years, to a low of 41 in 1932.[10]

At the beginning, governments and businesses spent more in the first half of 1930 than in the corresponding period of the previous year. On the other hand, consumers, many of whom suffered severe losses in the stock market the previous year, cut expenditures by 10%. In addition, beginning in the mid-1930s, a severe drought ravaged the agricultural heartland of the U.S.[11]

Interest rates dropped to low levels by mid-1930, but expected deflation and the continuing reluctance of people to borrow meant that consumer spending and investment remained low.[12] By May 1930, automobile sales declined to below the levels of 1928. Prices, in general, began to decline, although wages held steady in 1930. Then a deflationary spiral started in 1931. Farmers faced a worse outlook; declining crop prices and a Great Plains drought crippled their economic outlook. At its peak, the Great Depression saw nearly 10% of all Great Plains farms change hands despite federal assistance.[13]

Beyond the United States

At first, the decline in the U.S. economy was the factor that triggered economic downturns in most other countries due to a decline in trade, capital movement, and global business confidence. Then, internal weaknesses or strengths in each country made conditions worse or better. For example, the U.K. economy, which experienced an economic downturn throughout most of the late 1920s, was less severely impacted by the shock of the depression than the U.S. By contrast, the German economy saw a similar decline in industrial output as that observed in the U.S.[14] Some economic historians attribute the differences in the rates of recovery and relative severity of the economic decline to whether particular countries had been able to effectively devaluate their currencies or not. This is supported by the contrast in how the crisis progressed in, e.g., Britain, Argentina and Brazil, all of which devalued their currencies early and returned to normal patterns of growth relatively rapidly and countries which stuck to the gold standard, such as France or Belgium.[15]

Frantic attempts by individual countries to shore up their economies through protectionist policies – such as the 1934 U.S. Smoot–Hawley Tariff Act and retaliatory tariffs in other countries – exacerbated the collapse in global trade, contributing to the depression.[16] By 1933, the economic decline pushed world trade to one third of its level compared to four years earlier.[17]