The Causes And Effects Of The Great Depression

This essay will discuss the causes and effects of the Great Depression. The Great Depression was an extreme global financial downturn that occurred during the 1930s, starting in the United States and then spread across other countries. Although many countries, including the US, have faced significant economic downturns since, none could compare to The Great Depression. Its occurrence varied throughout countries; in some it started in 1929 and stuck till the late 1930s right before the start of World War II. A major fall in stock prices on 4th September of 1929, followed by the stock market crash of 29th October in the same year (famously known as Black Tuesday) was a major cause and what started it all. Between 1929 and 1932, worldwide GDP fell by nearly 15% with countries and cities focused on industry being hit hardest. If compared to the Great Recession of 2008/09, worldwide GDP fell by less than 1%, it can only signify the magnitude of the situation.

So, what are the causes of the Great Depression? Blaming it solely on Black Tuesday would be unfair as such a major event cannot be defined by one particular mishap. As significant as it was, Black Tuesday was not the only stock market crash to occur that month, On October 24, the market plunged at the opening bell and although investors managed to halt the slide, just five days later the market crashed, losing 12% of its value and wiping out $14 billion of investments. This had led to the banking sector being affected as the impacts of the financial exchange crash undulated all through the economy. More than 3,000 crumbled in 1930 and government store protection was up until then unfathomable, so when the banks fizzled, individuals lost all their cash. Individuals frantically pulled back their cash, constraining more banks to close and before the decade had ended, more than 9,000 banks had fizzled. People lost their jobs, unable to keep up with paying for items they had bought through installment plans; repossessions and evictions became common and the rate of unemployment rose above 25%. To protect U.S. industry from overseas competitors, Congress passed the Tariff Act of 1930, also known as the Smoot-Hawley Tariff.

The measure imposed significant tax rates on a broad variety of imports. Quite a few of America's trading partners retaliated by imposing tariffs on U.S. goods leading to a fall in world trade by two-thirds between 1929 and 1934. It piled on to the early loss of confidence on Wall Street and prompted the U.S. to isolate itself. In 1934 when President Franklin D. Roosevelt signed the Reciprocal Trade Agreements Act, tariff levels fell, promoting trade liberalization and cooperation with foreign governments.

Now moving on from the start of it in the US, the Great Depression played a strong role in Europe's economic downfall around this same period; Germany was hit hard as American loans to help rebuild the German economy from the tragedies of World War I were now non-existent and unemployment increased, mostly towards the cities. Repayment of the war reparations due by Germany were suspended in 1932 following the Lausanne Conference of 1932. By that time, they had repaid 1/8 of the reparations. Falling prices and lackluster demand induced by this created an additional problem in the Central European banking system, where their financial system had a hand-in-hand relationship with business. In 1931, the Creditanstalt bank in Vienna collapsed resulting in a financial panic across Europe. The depression in France was relatively mild: unemployment was under 5%, the fall in production was at most 20% below the 1929 output; there was no banking crisis. However, the depression had drastic effects on the local economy, and partly explains the February 6, 1934 riots and even more the formation of the Popular Front, led by SFIO socialist leader Léon Blum, which won the elections in 1936. Ultra-nationalist groups also saw increased popularity, although democracy prevailed into World War II. In Italy industries came close to failure they were bought out by the banks in a largely illusionary bail-out — the assets used to fund the purchases were largely worthless. This led to a financial crisis peaking in 1932 and major government intervention. The Industrial Reconstruction Institute (IRI) was formed in January 1933 and took control of the bank-owned companies, suddenly giving Italy the largest state-owned industrial sector in Europe. In Asia, the effects of the Great Depression weren't as strong as those in Europe as countries such as Japan were first to recognize the Keynesian theories and implement them accordingly.

During this period of crisis the Keynesian's idea was simple, to keep people fully employed, governments have to run deficits as the private sector would not invest enough to keep production at the normal level and to bring the economy out of recession. Monetarists such as Milton Friedman and Anna J. Schwartz believed the downward turn in the economy, starting with the stock market crash, would merely have been an ordinary recession if the Federal Reserve had taken aggressive action.

The Great Depression not only had economic but social effects too. It led to major governmental reforms and new federal programs such as Social Security, federal support of conservation tillage and sustainable agriculture and federal deposit insurance. The social situation had gotten to the point where people had stopped placing any value on money and lived their lives accordingly based on things of value which could be something as simple as a radio, not worrying about troubles of tomorrow. The economic and social horror of this one event is incomparable to any other, it also contributed strongly to starting World War II as it only justified the German people's belief in the Nazis and thus, they were elected. The rest, as they say, is history.