The Current American Economic System: a Direct Result of the Roaring Twenties and the Great Depression

WWI created hardship for not only the military, but for the entire world. The end of the war in 1918 was a relief for the American people, but not for the economy. War is extremely taxing on an economy. It raises national debt, inflation and consumption/investment decrease. However, WWI was not a typical war. The Treaty of Versailles placed all war reparations on Germany- directly punishing the country for starting the war. This allowed the United States economy to recover from the war fairly quickly, and with new developments in technology on the rise, consumer spending increased dramatically. American citizens eventually began building credit and spending money in their free time, leading to overconfidence in the American economy. This confidence in the economy led directly to the Great Depression. There are many similarities and differences between ways the government controlled the economy during the Roaring Twenties and after the Great Depression.

The role of the government in the economy was interesting during the Roaring Twenties. The Roaring Twenties was simply a change to the old-fashioned Gilded Age leadership that let business run the country. First, during the Roaring Twenties the government had no control over the economy. The economy during this period was controlled by individualism and materialism. This means that private sales/trade and industry allowed a constant flow of money, and as long as money was constantly flowing people could buy things with “credit”. New technologies like the automobile by Henry Ford and Louis Chevrolet after WWI allowed for many Americans to travel much quicker, which led to citizens having much more free time. Secondly, free time helped generate revenue through American pastimes. For example, people were extremely interested in the new Major League Baseball and the NFL-enough to spend millions of dollars a year on. Another popular pastime was the movie theater because with most Americans spending money on large items, many of them built enough credit to have significant spending money. About half the nation took a trip to the movies on the weekends. It is obvious that the government had no control of the economy during the Roaring Twenties, but rather the American people’s leisure spending. Government control of the economy drastically changed as the United States entered the Great Depression.

The Great Depression was the worst economic downfalls in the history of the modern world. This depression was a result of many Roaring Twenties problems. WWI created a high demand for food, which raised the prices of food, which made it difficult for farmers to pay back banks. With such an overuse of the soil during the 20’s, the soil became dry, making it impossible for crops to hold the soil. Secondly, the stock market crash on October 29th, 1929 led many

Americans to lose confidence in the market. This caused too many Americans to back out of the market, which kept the economy down in the dirt. Finally, the stock market crash led to the banking crisis, which over 50% of American banks closed. Investors could not pay back their money and people lost faith in banks, so they withdrew all their money causing banks to literally go bankrupt. The Great Depression definitely changed the government's role in the economy.

The American people's confidence in the economy was too high during the Roaring Twenties, so when the Great Depression began, Americans lost all confidence in the economy. During the Great Depression the American government took direct control of the economy-until the country was out of the depression. First, during the depression the economy was almost non-existent, so it was up to the government to get it going again. The Monetary Policy was the control over physical money and the Fiscal Policy was introduced as a way for the government to control government spending. For example, if the economy is going too slow, the government can spend tax money on roads, public buildings, parks, etc-creating jobs. If the economy is moving too quickly, the government can slow spending, which slows the economy. With no faith in the economy, the government created a national debt deficit to jumpstart the economy. Secondly, President FDR closed banks for four days and passes laws to regulate banking. With new regulatory laws set in place, Americans started to invest in banks once again. Once the American banks were up and running again, FDR helped destroy the crop surplus and paid farmers to not plant crops anymore. This idea was to keep crop supply low and raise crop prices. So, the economy during the Great Depression was changed by the government directly (to get it jumps started again) but was still driven by American industry/spending, and this is like the modern American economy.

Modern American economy is the similarities between the economy of the Roaring Twenties and the Great Depression. Today, American spending remains high and the government has moderate control over the economy with the national debt and laws meant to regulate the economy. As of today, the economy is nearing a prosperity peak, meaning the economy is doing well. We can see that the before the Great Depression the economy was dependent on American industry and commerce. After the Great Depression, the government realized maintaining a healthy economy should not be the sole responsibility of the American people. Due to the mistakes of the Roaring Twenties and the changes during the Great Depression, our economic system today is dependent on independent spending, and the role of the government is to support national debt and correct market failures. It is safe to say our current economic system was a direct result of the Great Depression and the Roaring Twenties.