What Causes Great Depression

What Causes Great Depression

[Great Depression](#)

[The Great Depression:](#) Great Depression was a catastrophic global event that saw millions of people slide into poverty. Across America, men and women would stand in bread lines and live in shantytowns.

In [**Germany**](#), the devastation caused by **the Great Depression** gave rise to the Third Reich and ultimately led to the start of [**World War II**](#). People still celebrate the 1920s as a golden era of parties and glamour, but the seed of the Great Depression was planted in these years of complacency. Although the **Stock Market Crash** of 1929 is often used as a start date for the Great Depression in the US, it was not the only cause of the disaster.

In Europe in the early 20s, the economy was already in tatters. Most of Europe struggled to repay debts owed to America from World War One; **Germany**, in particular, was paying heavy reparations. By 1922, Germany was experiencing hyperinflation, as their money became increasingly worthless. Workers collected wages in wheelbarrows, and desperate people burnt cash to keep warm. At its lowest point in 1923, **one trillion** German Marks was worth one US dollar.

Germany's shaky economy was briefly resurrected by a currency reform and the Dawes plan, which relaxed some reparations Germany had to pay. Nonetheless, it was not enough to prevent the rise of the far-right during the 20s. In the US, on the other hand, the economy was booming. Taxes were repeatedly cut to encourage spending, wages rose, and consumerism flourished.

The automobile's rise was a massive stimulus for the American economy, providing factory jobs and jobs building roads and petrol stations. America's landscape was forever changed by the car, and many people could now travel further to find work. Many older industries also benefited from car manufacturing, as many factory bosses copied Gerald Ford's brilliant assembly line model to mass-produce goods. For the wealthiest in society, new inventions like radios and washing machines became popular consumer items. Some people bought new gadgets on credit, a mistake that would come back to haunt them later.

Stock Market Crash 1929

Stock Market Crash of 1929

This decade was exceptional for **New York**, where Wall Street was a hive of activity. The Empire State Building and Rockefeller Center were built in this period, and a forest of skyscrapers transformed the landscape.

New York's prosperity was funded by the new trend of buying stocks and shares. Many ordinary people, as well as professional speculators, played the **stock market** for the first time. With share prices climbing fast, people were convinced that the stock market was a great way to make money quickly, and some people even took out loans to buy stocks. Although share prices rose exponentially throughout the decade, the economy was slowing down in real terms from at least the mid-20s onwards. Global trade had stalled, and few major powers could afford to spend on luxury items.

The **European market** had shrunk considerably due to the austerity caused by **World War I.** Although the US had done much better due to the war, they would quickly reach a saturation point for the sale of new goods without a thriving global market to sell to. Farming in the US had also slowed down. Agriculture had expanded massively during the First World War, but demand fell dramatically after the war ended.

The industrialization of farms had put many farmers into debt and many farmhands out of work. Crop yields were at an all-time high, but the market was by now totally saturated at home, and there was little opportunity for expansion abroad. Almost one-third of Americans still worked in agriculture in this era, so the industry's collapse would have massive consequences.

Many farmers were already struggling to pay their bills by the middle of the 20s. Knowledge of this challenging reality inevitably hit home in Wall Street, and the markets became shakier as it was increasingly evident that the sky-high share prices were based on nothing. The booming economy caused by stock market speculation was an illusion. Canny investors began to bet against the market. On Thursday, October 24, 1929, after a rush of panic selling when the markets opened, the stock market crashed dramatically.

Stock Market Crash of 1929

Over **12.9 million shares** changed hands in one day. Known as **Black Thursday**, this crash would cause a wave of unemployment due to the sudden drop-off in spending and investment. Many industries collapsed in these early days of panic selling, while those who had taken out loans to buy stocks were left destitute. Many stockbrokers committed suicide.

The years 1930 through 1933 would see a wave of banks collapse as investors increasingly lost confidence in the economy. In this period, small banks across America did not have enough money in the reserve to deal with the sudden rush of people who tried to remove their cash. Thousands of banks were forced to close, and many people went **bankrupt**. With banks no longer lending, the industry ground to a halt. Jobs were cut across the nation, and unemployment reached record levels.

In 1932, The Depression reached its climax, and the Dow Jones hit its record lowest point. The **stock market crash in America** would have massive consequences worldwide, worsening the already terrible economic conditions. Although a wave of new leaders would step up in the 30s to tackle the Depression, they struggled to make an impact.

In the **US, Herbert Hoover** was inaugurated in 1929 just before the crash, but he had no idea how to fix it. He would be blamed for the rest of his life for the collapse of the American economy. Somewhere between 20-30% of the labor force were now unemployed, and although Hoover started a new scheme to provide loans to key industries, it was too little, too late. The global trade situation worsened during Hoover's presidency.

The Smoot-Hawley Tariff Act, designed to protect American interests, put a massive trade tariff on imports, creating a further freeze-up of international trade when other countries retaliated. Meanwhile, many ordinary Americans stood in bread lines just to get fed; many more lived as hobos taking to the road to find work anywhere they could. People were starving in the streets while farmers could not afford to harvest their own crops, leaving them to rot in the fields. Sprawling shanty towns spread across America, and they were nicknamed Hoovervilles, in Hoover's honor.

Adolf Hitler

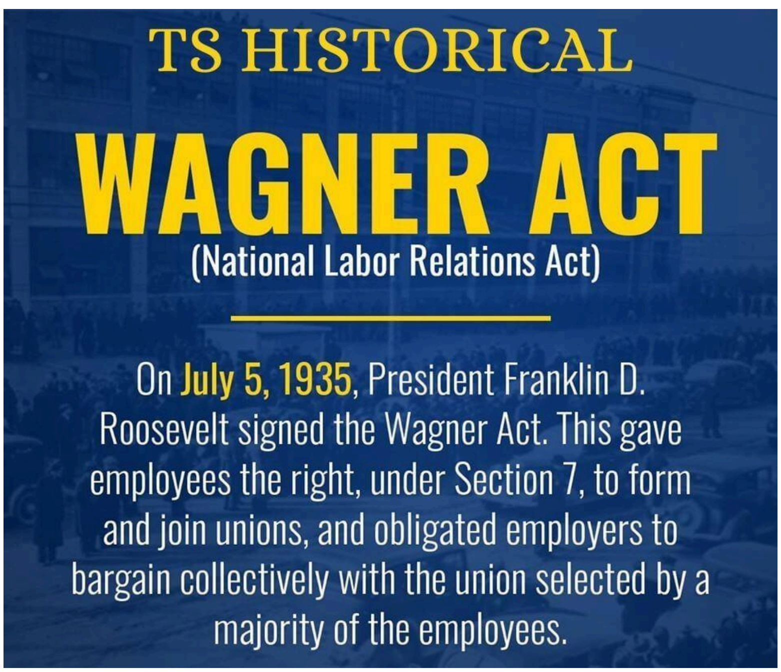
In **Germany**, the crisis swept the **Nazis** into power. **Hitler** was made **Chancellor** of Germany in 1933, with disastrous consequences for the German people – and later, the rest of the world. In the **US, Franklin D Roosevelt** was sworn in as **president** in 1933 and would remain, president, until he died in 1945, due in part to the incredible series of crises with which he would deal. FDR would introduce **"the New Deal,"** a massive economic relief program designed to save the economy.

This multi-pronged, complex wave of legislation was supposed to provide relief, reform, and recovery in equal measure. One central element of the New Deal was creating the Public Works Administration, which aimed to create jobs by developing various building projects. Under Roosevelt's administration, bridges, airports, schools, and other buildings were constructed across the country.

The government even went so far as to pay writers and artists to produce works of art. Roosevelt would also act fast to save farmers, many of whom were now completely ruined. In the South, the plight of agricultural workers was made worse by the Dust Bowl, caused by a wave of drought and high winds.

The terrible problems faced by farm laborers are one of Wrath's Grapes' principal themes, one of the great books to come out of the depression era. Although FDR would introduce much important legislation, his measures were controversial. Roosevelt's First New Deal in the early 30s resulted in a showdown with the Supreme Court, which tried to reverse his policies. The **AAA**, or **Agricultural Adjustment Act**, aimed to help farmers recover from difficult economic conditions. **The NIRA**, the **National Industrial Recovery Act**, were both declared unconstitutional by the Supreme Court.

Wagner Act



Wagner Act of 1935

The second phase of the New Deal, from 1935-36, introduced the **Wagner Act** and the Social Security Act, which have both been long-lasting and have endured the test of time. The Wagner Act gave workers more rights, including the right to unionize.

The Social Security Act gave unemployment insurance to Americans for the first time and provided for the poor, the elderly, and the disabled. **Roosevelt** won re-election by a landslide on the back of these reforms. Historians are still very divided on whether Roosevelt's measures helped the economy or had no effect whatsoever. Some believe Roosevelt did not go far enough to have a significant impact, but he did prevent people from starving to death.

In 1936, the renowned economist John Maynard Keynes would argue that governments must intervene more during a Depression to stimulate the economy. Keynes' economic position was a more extreme version of Roosevelt's — Roosevelt was still concerned with balancing the books for most of his presidency. Keynes argued that by massively increasing spending, even if it put countries into debt, the economy would be revived by a renewed wave of economic stimulus.

These economic ideas are still controversial today, and economists still cannot agree on how much intervention is appropriate or necessary to solve a massive economic disaster. Although unemployment had dropped considerably by 1940, it was still very high, and **the Great Depressio**n remains the longest-running economic downturn in the industrialized **world's history**.

Ultimately, The **Second World War** helped end the **Great Depression** by creating a vast economic stimulus in the US from 1941 onward. Suddenly, there was no need to create more jobs because everyone was enlisted in the army or busy making bullets or bombs. To this day, many of **Roosevelt's** policies remain in place in the US to prevent a repeat of some of the irresponsibility that led to the wild speculation of the 1920s.

The undermining of **FDR's Glass-Steagall Act** in 1999 is often identified as one of the culprits behind the financial crisis of 2008. Previously forbidden banking activity was suddenly permitted again for the first time since the 1920s. Commercial and investment banks were merged, with disastrous consequences for the global economy. The causes of the Depression and the reasons for its end are still contentious topics. Although there have been other economic disasters since then, the Great Depression remains an unparalleled economic catastrophe with no equality in modern times.