

The Great Depression

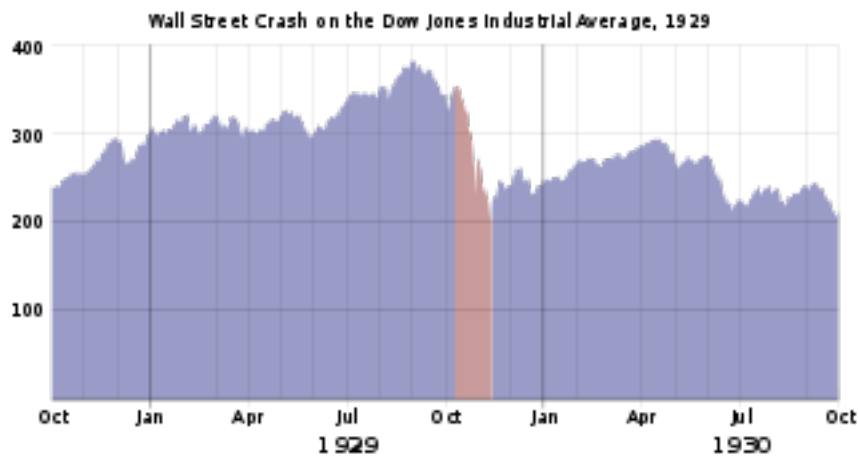
According to respected economist John Kenneth Galbraith the causes of the Great depression were unhealthy corporate and banking structures, an unsound foreign trade, much economic misinformation and the "bad distribution of income".

The **Great Depression** was a severe worldwide economic depression in the decade preceding World War II. The timing of the Great Depression varied across nations, but in most countries it started in about 1929 and lasted until the late 1930s or early 1940s. It was the longest, most widespread, and deepest depression of the 20th century, and is used in the 21st century as an example of how far the world's economy can decline. The depression originated in the U.S., starting with the stock market crash of October 29, 1929 (known as Black Tuesday), but quickly spread to almost every country in the world.

The Great Depression had devastating effects in virtually every country, rich and poor. Personal income, tax revenue, profits and prices dropped, and international trade plunged by $\frac{1}{2}$ to $\frac{2}{3}$. Unemployment in the U.S. rose to 25%, and in some countries rose as high as 33%. Cities all around the world were hit hard, especially those dependent on heavy industry. Construction was virtually halted in many countries. Farming and rural areas suffered as crop prices fell by approximately 60%. Facing plummeting demand with few alternate sources of jobs, areas dependent on primary sector industries such as cash cropping, mining and logging suffered the most.

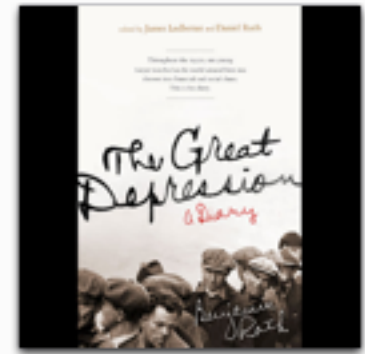
Countries started to recover by the mid-1930s, but in many countries the negative effects of the Great Depression lasted until the start of World War II.

Start of the Great Depression



Dow Jones Industrial, 1928-1930

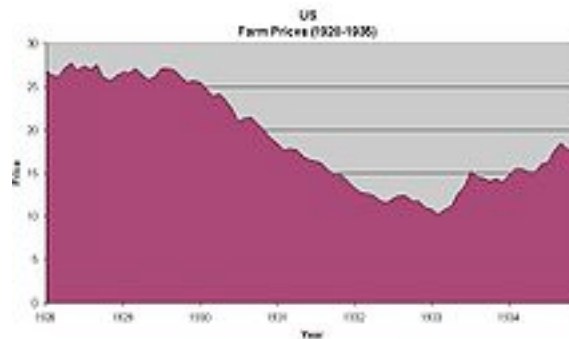
Economic historians most often attribute the start of the Great Depression to the sudden and total collapse of US stock market prices on October 29, 1929, known as Black Tuesday. However, some dispute this conclusion, and see the stock crash as a symptom, rather than a cause of the Great Depression. Even after the Wall Street Crash of 1929, optimism persisted for some time; John D. Rockefeller said that "These are days when many are discouraged. In the 93 years of my life, depressions have come and gone. Prosperity has always returned and will again." The stock market



The Great Depression (U...
James Ledbetter, Daniel B. R...

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turned upward in early 1930, returning to early 1929 levels by April, though still almost 30% below the peak of September 1929.[11] Together, government and business actually spent more in the first half of 1930 than in the corresponding period of the previous year. But consumers, many of whom had suffered severe losses in the stock market the previous year, cut back their expenditures by ten percent, and a severe drought ravaged the agricultural heartland of the USA beginning in the summer of 1930.



US Farm Prices, (1928–35).

By mid-1930, interest rates had dropped to low levels, but expected deflation and the reluctance of people to add new debt by borrowing, meant that consumer spending and investment were depressed. In May 1930, automobile sales had declined to below the levels of 1928. Prices in general began to decline, although wages held steady in 1930; but then a deflationary spiral started in 1931. Conditions were worse in farming areas, where commodity prices plunged, and in mining and logging areas, where unemployment was high and there were few other jobs. The decline in the US economy was the factor that pulled down most other countries at first, then internal weaknesses or strengths in each country made conditions worse or better. Frantic attempts to shore up the economies of individual nations through protectionist policies, such as the 1930 U.S. Smoot–Hawley Tariff Act and retaliatory tariffs in other countries, exacerbated the collapse in global trade. By late 1930, a steady decline in the world economy had set, which did not reach bottom until 1933.

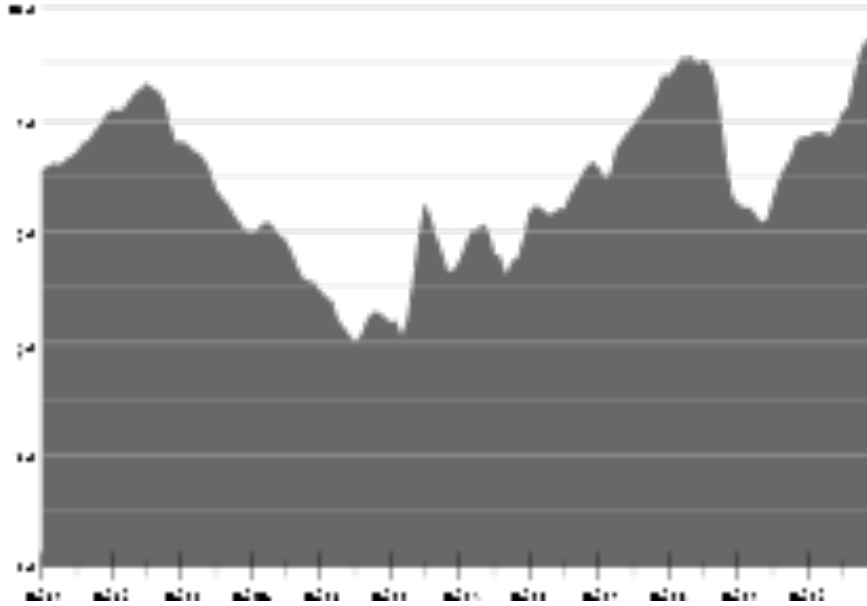
Causes

There were multiple causes for the first downturn in 1929, including the structural weaknesses and specific events that turned it into a major depression and the way in which the downturn spread from country to country. In relation to the 1929 downturn, historians emphasize structural factors like massive bank failures and the stock market crash, while economists (such as Barry Eichengreen, Milton Friedman and Peter Temin) point to monetary factors such as actions by the US Federal Reserve that contracted the money supply, and Britain's decision to return to the Gold Standard at pre-World War I parities (US \$4.86:£1).

Recessions and business cycles are thought to be a normal part of living in a world of inexact balances between supply and demand. What turns a normal recession or 'ordinary' business cycle into an actual depression is a subject of debate and concern. Scholars have not agreed on the exact causes and

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their relative importance. The search for causes is closely connected to the question of how to avoid a future depression, and so the political and policy viewpoints of scholars are mixed into the analysis of historic events eight decades ago. The even larger question is whether it was largely a failure on the part of free markets or largely a failure on the part of government efforts to regulate interest rates, curtail widespread bank failures, and control the money supply. Those who believe in a large role for the state in the economy believe it was mostly a failure of the free markets and those who believe in free markets believe it was mostly a failure of government that compounded the problem.



US industrial production (1928–39).

Current theories may be broadly classified into three main points of view. First, there are demand-driven theories, most importantly Keynesian economics, but also including those who point to the breakdown of international trade, and Institutional economists who point to underconsumption and over-investment (causing an economic bubble), malfeasance by bankers and industrialists, or incompetence by government officials. The consensus viewpoint is that there was a large-scale loss of confidence that led to a sudden reduction in consumption and investment spending. Once panic and deflation set in, many people believed they could make more money by keeping clear of the markets as prices dropped lower and a given amount of money bought ever more goods, exacerbating the drop in demand. Second, there are the monetarists, who believe that the Great Depression started as an ordinary recession, but that significant policy mistakes by monetary authorities (especially the Federal Reserve), caused a shrinking of the money supply which greatly exacerbated the economic situation, causing a recession to descend into the Great Depression. Related to this explanation are those who point to debt deflation causing those who borrow to owe ever more in real terms.

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Variety's headline after the Crash



WELL, WE'VE LICKED TAXES — THAT JUST LEAVES DEATH.



LATELY, I'VE HAD THE AWP'IL FEELING THAT MY MARRIAGE IS TIED TO THE DOLLAR.



"The market hit new highs today, while the contrition index remained at zero."

