

Great Depression – Causes and Consequences

Key words: *share speculation, over-production, Black Thursday, Great Depression – world slump, protectionism, laissez-faire*

Dictionary: share: akcia, down payment – záloha, import duty – dovozné clo, spending – utrácanie, výdavky, dismissal of workers – prepúšťanie pracovníkov, slump – ekonomická kríza, broker – maklér, tax revenue – príjem z daní

The Great Depression: Introduction

The **Great Depression**¹ 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 1929** and lasted until the late **1930s or early 1940s**. It was **the longest, most widespread, and deepest depression/development (choose the correct one) of the 20th century.**

The **Great Depression** **began with the** and rapidly spread worldwide. The market crash marked the beginning of a decade of

The Great Depression: Causes

1. **Share speculation:** During the boom of the 20s, there was a tremendous increase in share trading. The number of people owning shares rose from 4 million in 1920 to 20 million by 1929. Many of these owners were speculators who only **made a down payment on the shares, hoping to pay for the rest when they had sold them for profit.**

2. **Over-production:**

3. **Unequal distribution of the wealth:** almost 50% of the American people lived below

4. **Banks:**

5. **Loans:** brokers provided many loans to enable investors to buy shares. When the stock market crashed, investors could not pay back the loans.

6. **Tariffs and Protectionism:** European countries could not afford US goods, and many of them were **protecting** their own goods by putting high **tariffs** on American imports. US companies had no-one to sell their products to – and started to lose money.

Not only Europe was in trouble. Because of low prices of coffee, countries like Brazil and Argentina could buy little from industrialized countries like USA and Britain.

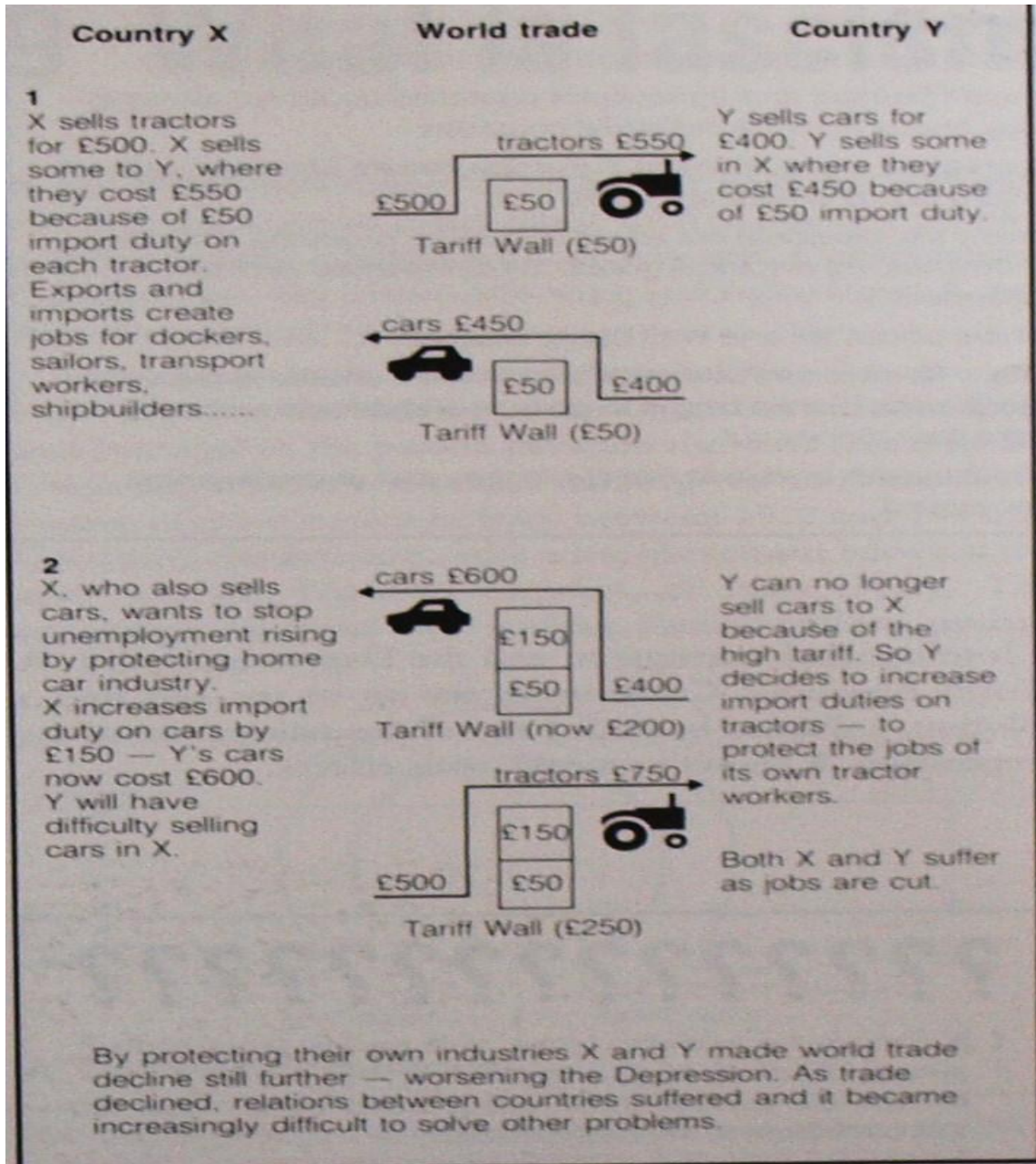


¹ = **World Slump:** in economics, a **recession** is a **general slowdown in economic activity** over a period of time for more than two consecutive quarters. Production, as measured by Gross Domestic Product (GDP), employment, investment spending, household incomes, business profits and inflation all fall during recessions; while bankruptcies and the unemployment record rise.

World trade suffers

Tariffs: charges or import duties placed by a government on foreign goods (such as Fordney-McCumber Act in the USA, 1922) coming into the country. These charges are intended to make foreign goods more expensive, thus helping to increase the sales of the cheaper home-produced goods and protect domestic industry. **This is a policy of** Give your own definition of this policy:

.....



D Protectionism led nations to build up 'tariff walls', and this in turn caused more trade restrictions between nations



The Wall Street Crash:

In autumn 1929, some investors and speculators lost confidence that the economic boom could continue. People rushed to sell shares because they realized their companies were doing badly. **Wall Street – USA trade center** – was hit by panic. Soon millions of shares had been sold and prices fell rapidly.

On 24 October 1929, over 13 million shares were sold off. This became known as **“Black Thursday”**.

Pic. on the left: Crowd gathering on Wall Street after the 1929 crash.

The collapse of share prices led many firms to closing down, so large numbers of people became unemployed. This situation soon became worse as investors lost confidence and workers jobs. With fewer people with money to buy goods, sales of most products fell, leading to even more people becoming unemployed in what developed into a downward economic spiral.

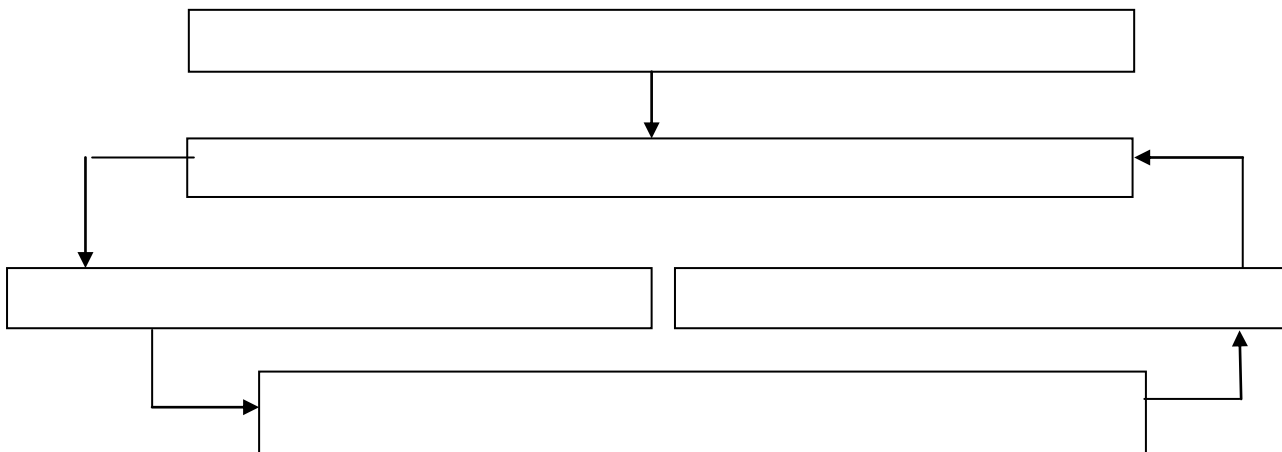
Herbert C. Hoover (1929-1933): was a President when the Great Depression hit. As a (political party) he asserted the **laissez-faire policy**. **Hoover did not want to and wanted to leave the business alone. Hoover believed that if the right conditions could be created, people would be able to work themselves out of poverty without direct assistance from the**

X

Remember these ideas of laissez-faire and compare them to the policy of **Roosevelt’s New Deal** from the next worksheets.

Fill out the scheme correctly so that the scheme fits. Use the following sentences:

1. Lower production of the goods,
2. Wall Street Crash,
3. Unemployment,
4. No money to buy the goods,
5. Dismissal of workers



The Great Depression: Consequences and Effects:

The Great Depression had devastating effects in virtually every country, rich and poor. Personal income, tax revenue, profits and prices dropped while international trade plunged by ½ to ⅓. **Unemployment in the U.S. rose to%, and in some countries rose as high as %.** 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%.

F Percentage decline in the value of imports and exports, 1929-31

	Imports
USA, Germany	over 50%
Italy, Austria	over 40%
Great Britain, France	over 25%
	Exports
Cuba	over 70%
Brazil	over 60%
Argentina	over 65%
USA	over 50%
Great Britain, Austria	over 40%
France, Italy	over 30%
Germany	over 25%
Russia	under 15%

G Unemployment in millions

	USA	Germany	Britain
1929	1.55	2.48	1.20
1932	12.06	6.12	2.80

Effects in the US:

1. In 1929 the USA stopped lending money abroad and **stopped its ... loans**, 2. Almost 32 000 U.S. businesses went bankrupt in 1932 alone, 3. From late 1919 to mid 1932 **5000 banks went bankrupt** – losing 3.2 billion US dollars of deposits, 4. **¼ of the workforce** – about 13 million – were unemployed **by 1933**, 5. Farm products prices fell 60 %. 6. Other effects: undernourishment, homeless people, migration to seek work, ...

Effects outside the US:

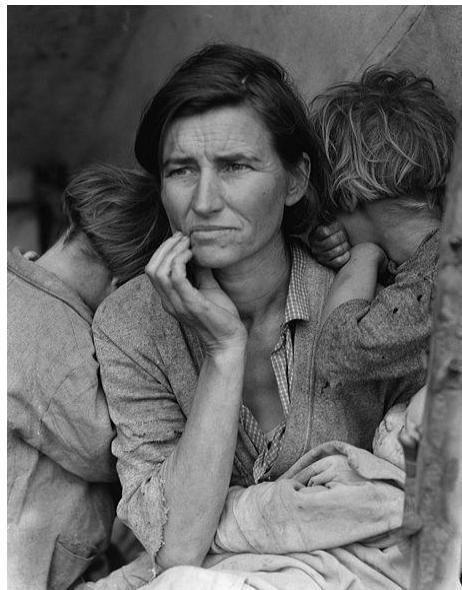
Germany:

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USSR:

Britain:

was forced to devalue the pound in September 1929 – this made it worth less. Within 3 years 3 million people were unemployed in Britain. **Italy:** Mussolini wanted to distract attention from economic problems at home. This encouraged him to **invade**



Japan: tried to solve its economic problems by **invading** in order to find new markets and raw materials. **France:** Depression caused internal political problems and made France delay rearmament.

One French woman remembers the hard times of Great Depression: “I spent winter of 1932-33 on the streets, it snowed and froze, thousands of young men, forced out of their jobs by the crisis, struggled on to their last penny, to the end of their tether then, in despair, abandoned the fight. On the street benches and at tube stations groups of exhausted and starving young

men would be trying not to die ... I saw a child drop a sweet which someone trod on, then the man behind bent down and picked it up, wiped it and ate it.” (Morvan Lebesyue, Chroniques di Canard, 1960)

