The Great Depression

From 1929 to the mid-1930s, much of the world was plunged into an economic slump, which brought enormous poverty and unemployment, and sent wages and production levels crashing. This is known as the Great Depression.

Many returning soldiers, often injured, were forced to beg to survive.

WARNING SIGNS

The first signs that depression was on the way came after the First World War. The cost of weapons and armies had left many countries with huge debts. The introduction of new technology increased food production in Europe, Australia and America, but the demand for food stayed the same. This led to falling food prices, and forced many farmers out of business.

An international economic crisis was also made more likely by an imbalance in world trade. The problem was that the USA was exporting more goods than it was importing. The countries that bought US goods often borrowed from US banks to pay for them. This meant that any collapse in the US economy would be felt all over the world. Germany had the biggest debts to US banks, because of money borrowed to meet the reparation payments to the Allies.

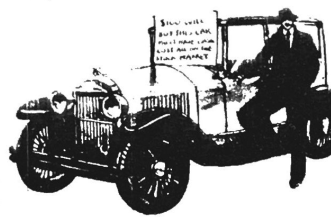
Another reason for the imbalance was that the old industrial countries such as Britain and France were producing goods made from steel and cotton, which other countries no longer bought in the same quantities. Electrical goods, chemicals and cars had replaced them as the most popular imports.

In 1925, the situation was made worse by the decision in Britain to return to the Gold Standard. This was a rate of exchange based on the amount of gold that each country had in reserve, but it was calculated on 19th century estimates that were no longer accurate. The Gold Standard made European currencies strong in relation to the American dollar, and this made their goods very expensive abroad.

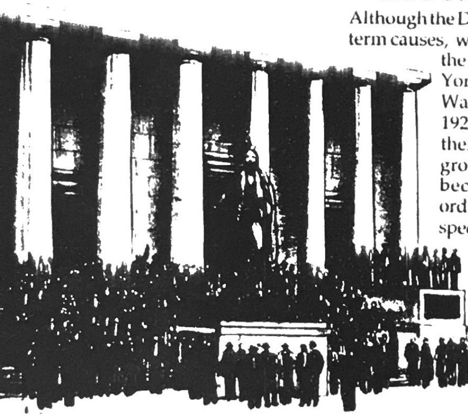
In the 1920s, people wanted US electrical goods, like this vacuum cleaner.

WALL STREET CRASH

Although the Depression had long-term causes, what triggered it was the collapse of the New York Stock Market, on Wall Street, in October 1929. During the 1920s, there had been rapid growth in the USA. It became popular for ordinary Americans to speculate on the stock exchange by buying and selling shares in businesses. The more shares were traded, the higher their price rose, until shares became over-valued. Many people built up large debts by borrowing from banks to buy more shares.



The losses after the Crash led some to turn from stockbroking to car dealing.



The New York Stock Exchange on Wall Street

By 1929, many people began to believe that their shares were not worth as much as they had paid for them. So they began to sell them off quickly. Shareholders panicked and rushed to get rid of stock. Prices plummeted, and on October 24, 13 million shares changed hands. Within a week, American investors had lost over $40 million. This is known as the Wall Street Crash. The US economy went from boom to slump in only a few months. Thousands rushed to cash in all their savings, in what is known as a "run" on the banks. But the banks did not have the money to give their account holders. Over 9000 banks were forced to close and many people lost their entire savings.

This cartoon symbolizes the Wall Street market crashing.

In the worst years of the Depression, from 1929 to 1933, agricultural prices fell by almost two-thirds, industrial production halved, businesses went bankrupt, and millions lost their jobs.

As many people had lost their jobs, soup kitchens selling cheap food became very popular.

WORLD DEPRESSION

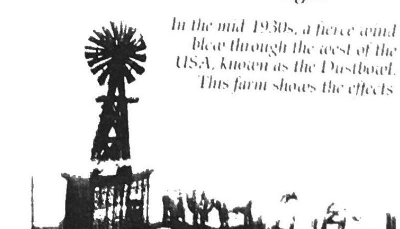
The Depression was not limited to the USA. It affected almost every economy in the world. Australia, Austria, Poland, Canada, Latin America and the Netherlands were all severely hit. The country with the biggest debts was Germany, which had already suffered a crash in 1923 (see page 22-23).

This picture shows poor people living in old drainpipes in Tokyo, Japan.

In 1931, Germany was plunged into another crisis when the Bank of Vienna collapsed. At the peak of the crisis, one in three German workers was unemployed.

Recovery was slow. It took many years for employment to return to old levels. Chile, Japan and Sweden had restored industrial production by 1935, but for most countries the process took much longer.

In the mid 1930s, a fierce wind blew through the west of the USA, known as the Dustbowl. This farm shows the effects



GOVERNMENT RESPONSE

At first, government responses to the Depression were ineffective. Each country tried to protect its own economy by demanding high duties on imported goods. This weakened world trade. Governments tried to work together at the World Economic Conference held in 1933, but no practical decisions were made.

In 1932, Franklin D. Roosevelt was elected US President. He introduced a series of policies, known as the New Deal, to help kick-start the country out of depression. The New Deal included projects to build roads and electricity stations.

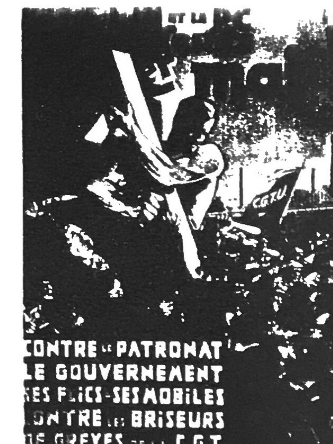
A National Recovery Administration badge

US Democratic Party slogan

THE PEOPLE'S RESPONSE

In this atmosphere of economic uncertainty, many people were attracted to extremist political groups, such as fascists and communists, which offered radical solutions. In Germany, Adolf Hitler was elected because he offered a simple solution to unemployment and poverty. Many Germans thought that, unless they voted for him, the communists would come to power. Fascist groups also gained support in Austria, the Balkans, Spain, South America and Britain. In France, a communist-socialist government came to power in 1936.

An Italian poster for a fascist festival



A poster produced by a communist led union in France

An alternative to these was offered by the British economist John Maynard Keynes. He argued that governments should take a greater role in economic affairs, without strictly controlling it. Poorer people should be protected from poverty by better health care, education and unemployment benefits.

Hunger marches were a popular way of demanding change.