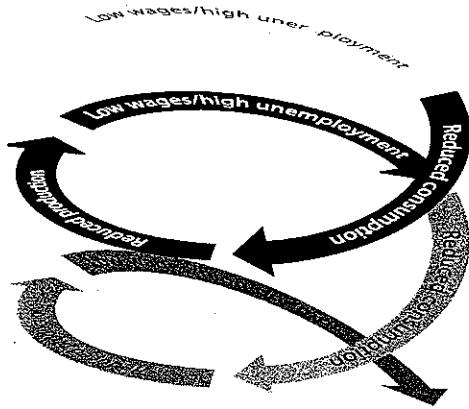


What caused the Great Depression?



SOURCE A
The downward economic spiral

● 1 Conduct research into the 'roaring twenties'. Make notes under the following headings:
consumer goods
mass production
advertising
changes in society

● 2 Look at Source A. Why is it so hard to reverse an economic decline?

In the early months of 2009, as the global economy moved into a period of decline, many commentators made comparisons with the worldwide economic slump of the 1930s. At the time of writing, the full extent and impact of that downturn is unknown, but it is interesting to note that almost everyone who seeks to describe the possible causes and potential consequences of the situation does so in relation to the context of the

Great Depression, which, even 75 years after it came to an end, still serves as the benchmark for comparisons of the seriousness of any economic decline. As any student of modern world history could explain, this should not be a surprise — after all, the Great Depression was one of the key turning points of the twentieth century. However, while the impact of the economic situation of the 1930s is well known, the causes of the decline are less clear-cut and provoke more debate than many students realise.

Factor 1: The Wall Street crash

In October 1929, the New York stock exchange, located in Wall Street, collapsed. The value of shares plunged and as a result many companies and their shareholders were bankrupted. This led to unemployment and a fall in incomes, which fuelled a decline in the economy as spending declined and more businesses were sucked into the mire. It also led to a crisis in the US banking system.

Factor 2: The banking crisis

A key consequence of the Wall Street crash was the impact that it had upon the US banking system. This is one of the clearest ways in which parallels can be drawn between recent events and those of the 1930s. Many US banks that had invested heavily in shares lost a huge proportion of their funds in the crash, so that a number of banks filed for bankruptcy. This provoked a huge crisis in confidence among the American public, many of whom sought

to retrieve their savings immediately for fear of losing them (customers with savings in a bank lose their money if that bank goes bankrupt). This phenomenon of withdrawing savings, known as a 'run on the banks', led to more banks going under and increased anxiety still further. In 1929 around 650 banks went bust. By 1933 a further 3,400 had joined them. Those banks that were able to survive were far less likely to be able to offer credit (loans), and as a result many businesses were forced to close, leaving even more workers without jobs. By 1933 around 15 million American workers, around a quarter of the entire workforce, were unemployed.

Factor 3: Loss of confidence — a simplistic explanation?

This view holds that the key factor in causing the Depression was a relatively sudden loss of confidence in US business, which explains how the US economy seemed to be transformed from boom to bust within a short space of time. There is no doubt that the decade that preceded the Great Depression was, in many ways, a hugely successful time for the US economy. Often referred to as the 'roaring twenties', this decade saw the US exploit, for the first time, the full potential of its economic resources (a large population, a huge area of land, a varied climate and plenty of raw materials). Capitalising on the devastating impact of the First World War upon its economic rivals, the USA

SOURCE B

By 1921 there were already signs that the American economy was slowing down. Fewer houses were being built, and sales of motor cars declined. Industrial workers' wages were not rising fast enough for them to buy all the consumer durables the factories could produce. American farmers had over-expanded their production of food, food prices went down, farmers' earnings decreased — and so, inevitably, did their purchases of goods.

Tony Howarth, *Twentieth Century History*, 1979

SOURCE C

Clearly, those responsible for organising the economy did not know what had happened, were baffled by it, refused to recognise it, and found reasons other than the failure of the system....Henry Ford [the pioneer of motor car development], in March 1931, said the crisis was here because 'the average man won't really do a day's work unless he is caught and cannot get out of it. There is plenty of work to do if people would do it. A few weeks later he laid off 75,000 workers.

Howard Zinn, *A People's History of the United States*, 1980

developed its industry, manufacturing new goods, and pioneered new methods of production. This led to a boom in the domestic economy and international trade, helped by successive governments that pursued 'laissez-faire' and protectionist policies.

A partial understanding of the causes of the Great Depression leads many students to combine these three factors to explain the slump. However, to attribute the worldwide depression solely to a loss of confidence, the Wall Street crash and consequent banking crisis is simplistic. There had been stock market crises before 1929 and there have been many since, although none has had such devastating consequences. Equally, it is essential to ask why the price of shares collapsed, and why the bankruptcy of a number of US banks and businesses had such a shocking impact well beyond the shores of the USA.

Factor 4: Long-term weaknesses in the US economy

Although, on the surface, the roaring twenties may seem to have been a time of universal growth, the reality is that the benefits of the booming economy were not evenly shared. Many businessmen took advantage of the government's laissez-faire policy by paying relatively low wages. While this increased their profits and those of their shareholders, it meant that many workers did not have much money to spend on the new goods that were being produced.

For an economy to grow it is essential that consumers have money to spend, and this factor suggests that the economy was not as strong as it might have appeared to be. In the short term, the potential consequences of this were avoided by the increasing availability of credit. Credit was readily available as banks, too, sought to capitalise on the absence of government controls on their business. As a result, many Americans were able to accumulate debt at an alarming rate, and, as the decade continued, increasing numbers were unable to continue to meet the cost of repaying these loans. As the 1920s progressed and the government continued to avoid interference in the economy, the situation worsened. However, the leaders of US business seemed unable (or unwilling) to foresee that such a situation could not continue indefinitely.

The lack of spending power among the US public, coupled with a failure to recognise its consequences, led to two fundamental weaknesses in the economy — *underconsumption* (not enough being bought) and *overproduction* (too much being made). All sectors of the economy were affected by this — agriculture and industry alike. Prices fell, as did profits, which caused incomes to fall still further and led to a downward spiral of the economy. In such a situation, it becomes almost impossible to avoid economic collapse. Even the government loses out, because lower earnings lead to falling tax revenues, which in turn reduces the scope for government spending.

As the reality of this situation began to emerge, it is not surprising that confidence in the US economy evaporated quickly.

Factor 5: Government failure to protect the banks

Some historians and economists argue that, regardless of the evidence of the long-term weaknesses of the US economy, the Great Depression could have been avoided if the government had acted quickly and decisively to protect the banks. Supporters of this view defend laissez-faire policies (see Source D), arguing that there would have been a relatively short and far less damaging downturn, had the banks not collapsed. They believe, therefore, that ultimate responsibility for the Great Depression lay with the US Federal Reserve, the central bank which is, in effect, appointed by the government to manage the US banking system and which could

SOURCE D

Ben Bernanke, chairman of the US Federal Reserve, speaking in 2004:

The Federal Reserve had the power at least to ameliorate [improve] the problems of the banks. For example, the Fed could have been more aggressive in lending cash to banks...or it could have simply put more cash in circulation. Either action would have made it easier for banks to obtain the cash necessary to pay off depositors, which might have stopped bank runs before they resulted in bank closings and failures. Indeed, a central element of the Federal Reserve's original mission had been to provide just this type of assistance to the banking system. The Fed's failure to fulfil its mission was, again, largely the result of the economic theories held by the Federal Reserve leadership.

www.federalreserve.gov/boarddocs/speeches/2004/200403022/default.htm

SOURCE E

There seems little question that in 1929...the economy was fundamentally unsound. Many things were wrong, but five weaknesses seem to have had an especially intimate bearing on the ensuing disaster. They are:
The bad distribution of income — leading to underconsumption
Weaknesses of the corporate structure
Weaknesses of the banking system
Lack of foreign trade
Poor economic policies

John Kenneth Galbraith, *The Great Crash: 1929*, 1955

● 3 Look at Sources B and C. To what extent would it be reasonable to hold **a** the government and **b** the greed of US businessmen responsible for the Great Depression? Explain your answer fully.

● 4 To what extent do Sources D and E agree about causes of the Great Depression?

SOURCE F

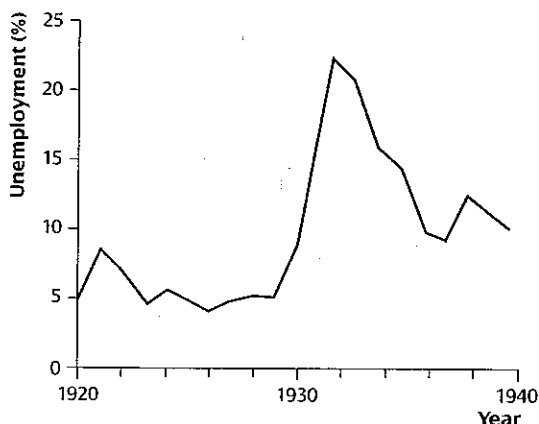
Selected share prices, 1928–29

Company	3 March 1928	3 September 1928	3 September 1929	13 November 1929
Montgomery Ward	132	466	137	49
New York Central	160	256	256	160
Union Carbide and Carbon	145	413	137	59
American Telephone and Telegraph	77	181	304	197
Anaconda Copper	54	162	131	70
Westinghouse	91	313	289	102
Electric Bond	89	203	186	50

SOURCE G

US employment, 1920–1940

● 5 How useful are statistics such as those in Sources F and G for historians studying the causes of the Great Depression?



SOURCE H

Wall Street crash



Definition

laissez-faire: a policy by which governments avoid interference in economic areas such as wage levels.

protectionism: policies designed to ensure that consumers purchase domestically produced goods. This works by levying taxes called tariffs, which serve to increase the cost to consumers of imported goods.

● 6 'The Great Depression was caused by a loss of confidence among US consumers.' How far do you agree with this view?

have provided funds to prevent the banks from closing.

Factor 6: Global reliance on US economy

It can now be seen that the causes of the Great Depression were considerably more complex than a mere crisis in confidence among US consumers, but it is still not clear why a collapse in the US economy led to economic disaster across the world. Although there were some countries that were largely immune to the effects of the Great Depression (most notably the USSR), it is accurate to assert that economies across the world suffered in the early 1930s. There are two principal reasons for this.

First, the withdrawal of credit from US banks was felt in other countries, particularly among the European countries that were still in a period of recovery following the devastation of the First World War. The example of Germany is well documented. The withdrawal of loans arranged in the Dawes Plan (1924) and the Young Plan (1929) led to complete economic collapse, the fall of the Weimar government and the rise of the Nazis. Although other countries were not as dependent as Germany on US loans, many governments and businesses across the globe suffered through an inability to obtain credit and/or a requirement to repay loans already received.

Secondly, the effects of the slump were made considerably worse by the misguided reaction of many governments, which, seeking to protect their countries' industries, adopted protectionist policies. As a result of these, world trade collapsed. Instead of protecting their countries' businesses, protectionist policies only served to make the crisis worse.

Conclusion

It is clear that the causes of the Great Depression are considerably more complex than a crisis of confidence among US consumers. Historians differ as to who should be held primarily responsible for the crisis. Some lay the blame at the feet of the businessmen, whose 'greed' could be said to have brought about their downfall, others accuse governments for failing to see long-term weaknesses in the economy which could have been avoided, had they pursued different policies. A third school of thought argues that the mistakes which caused the Great Depression were relatively straightforward. Instead of criticising businessmen, bankers or government, the US Federal Reserve could have averted the crisis by providing money to rescue the banks, thus ensuring that there would have been no more than a 'normal' economic downturn.

Interestingly, current events could test the validity of these arguments. The reaction to the banking crisis of autumn 2008 was to follow this final school of thought. The extent to which this policy succeeds, therefore, could have a decisive effect upon historical analysis of the Depression of the 1930s.