Analytical Essay on The Great Depression: Economic Short-term Effects and Political Long-term Effects

After WWI, Europe was dog-tired and obliterated to an unprecedented scale. Cameron (2014), editor at the Heinrich Böll Stiftung, describes the aftermath of the war, “It is tragic to consider all of the lost potential, all of the writers, artists, teachers, inventors and leaders that were killed in ‘the war to end all wars.’” The United States, on the other hand, emerged from the war as a world military and industrial superpower. From 1920 to 1929, the American economy grew steadily, and the overall wealth of the country more than doubled, a period which was dubbed “the Roaring Twenties” (History.com, 2009). According to economic analyst and Forbes contributor Jesse Colombo, “At the end of the 1920s, the United States boasted the largest economy in the world.” By comparison to war-torn Europe, homes and factories in the U.S. remained relatively untouched by the Great War. In the first months of 1929, few Americans saw any reason to question national economic strength and stability. Unemployment was at an all-time low, and the automobile industry was experiencing exponential growth. Just like their newly elected President, millions of Americans believed that not only would the economy continue to grow, but significant social progress would also follow. 'We in America today,' [President] Herbert Hoover proclaimed, 'are nearer to the final triumph over poverty than ever before in the history of any land. The poorhouse is vanishing from among us.' Then, in a moment of utter victory, day became night for Americans. The world was suddenly in economic turmoil and national economies were severely injured and shaken as the United States plunged into the longest and deepest economic crisis of history, widely known as: The Great Depression.

The Great Depression lasted for approximately 10 years [from 1929 until WWII] and had a massive impact not only in America, but in almost every single country of the world. The American economy was ruined, the industry collapsed, and unemployment ran high. Millions of Americans received pink slips [notices of dismissal from employment (Google Dictionary)]. An article by Encyclopedia Britannica shows some shocking figures:

“In the United States, where the Depression was generally worst, industrial production between 1929 and 1933 fell by nearly 47 percent, gross domestic product (GDP) declined by 30 percent, and unemployment reached more than 20 percent. Because of banking panics, 20 percent of banks in existence in 1930 had failed by 1933. March 1933 was the nadir for the entire 1930s, with 15 million, nearly 30%, out of work” (“Great Depression”).

How is it possible that the US went from heaven to hell within a decade and what is the everlasting impact of this ghastly occurrence? According to experts, the causes of the Great Depression were the Stock Market Crash of 1929, fundamental structural weaknesses in the American economic system, and the absence of adequate and properly timed governmental intervention which had economic, short-term effects in addition to political, long-term effects.

To begin with, the main school of thought surrounding the causes of the Great Depression revolves around the Stock market Crash of 1929. The capital in America was represented by stocks. Easy money policies led to very high stock prices, which led to massive betting that forced people to invest all of their wealth on the stock market. At that time, there were many ordinary workers involved in stock investments, and some bought stocks 'on margin' meaning

that they only paid a small percentage of the value of the stock and borrowed the remainder from a bank or broker. According to Carole (2014), “Buying on margin became so popular that by the late 1920s, ninety percent of the purchase price of the stock was being made with borrowed money. Not only that ... the U.S. economy had come to depend on that activity. Before the crash, nearly forty cents of every dollar loaned in America was used to buy stocks.” Everyone drooled over the thought of getting rich fast and believed that the economy would never cease to expand. This confidence led to excessive speculation in the stock market. Eventually, the price of the stocks began to fall sharply due to all of the speculation and people began to sell their stocks in panic. The number of stocks available for sale was higher that the number of people willing to buy and, consequently, the market went into free fall (Great Depression, 2008). Almost every investors, from the worker to the corporate businessman, lost their lifetime savings. To add insult to injury, as mentioned before, most of the stocks were bought on margin which meant that the investors had to pay billions of dollars of debt to the banks and brokers (Ducksters Educational Site).

However, the Stock Market Crash was not the only cause of the Depression. Another cause that is believed to have played a part in the depression is the fundamental structural weakness of the American economic system. Many businesses overburdened themselves with debt in their quest to boost profits. In order to receive loans, they misrepresented their savings in ways that did not show their inability to repay them if required to do so. These malpractices were ignored and, as a result, they “put the nation’s banking system on precarious footing.” (Norton, 2015, A People & A Nation: A History of the United States, pp. 701-703). This meant that in case of a crisis, the banks did not have enough money to return the customers their deposits. After the massive market crash, bank failures followed as hundreds of thousands of people rushed to withdraw their savings from banks; the banks could not handle hundreds of thousands of people requiring their deposits at the same time because they did not have enough money to return them their deposits. The website “The Great Depression” states, “By 1933, 11,000 of the nation’s 25,000 banks had disappeared. Overnight, hundreds of thousands of customers began to withdraw their deposits. With no money to lend and loans going sour as businesses and farmers went belly up, the American banking crisis deepened” (“Bank Failures During The Great Depression”). From the stock market crash and bank failures, naturally, purchasing power became less. Less purchase power meant less demand. Less demand meant overproduction. Overproduction urged the factories to start fire workers. The unemployment levels rose exponentially as many factories closed in quick succession (Great Depression, 2008). According to Cumberland County Schools, “As people lost their jobs, they were unable to keep up with paying for items they had bought through installment plans and their items were repossessed. More and more inventory began to accumulate. The unemployment rate rose above 25% which meant, of course, even less spending to help alleviate the economic situation” (5 Causes of The Great Depression).

In addition to that, the absence of adequate and properly timed governmental intervention was also a massive contribution to the Depression. The Republican government of the time put no effort into regulating speculation as it preferred to exercise a minimal role over the economy. Norton (2015) describes President Hoover’s point of view, “President Hoover, who had never approved of what he called ‘the fever of speculation’, assured Americans that ‘the crisis will be over in sixty days after the Market Crash and the Market will correct itself.’ Three months later, he still believed that ‘the worst is over without a doubt.’” (A People & A Nation: A History of the United States, pp. 701-703). On top of that, we have the introduction of the Smoot-Hawley Tariff in 1930, which was a bill designed to protect the American companies. According to Kimberly

(2019), this tariff artificially raise the tariffs of more than 800 imported products by approximately 45%. The government believed that an increase in imported goods would encourage domestic production and help farming and agriculture to recover from the crisis. The government, however, did not take into consideration two things. First, because of the Stock Market Crash, there was a decrease in demand which lead to less domestic production. Second, imported goods were cheaper than domestic goods and minimizing the amount of cheap imported goods in a time when purchase power had hit rock bottom was suicide. This tariff had a reverse outcome of what the government expected. The food prices went up which further deepened the crisis. It also urged the other countries to respond with their own increases in tariffs and "that forced global trade down by 65%" (Kimberly, 2019). This was the moment that the Great Depression became a global crisis.

As a result of all the above mentioned practices, people fell into massive levels of poverty. With stratospheric unemployment rates, the country plunged into poverty and famine. Thomas Moon, a retired electrical engineer, in an interview with the New York Times, shares some of his memories, "When you got hungry, you could take a walk out in the mountains. There was always something to eat all kinds of berries and in the winter you got pecans, hickory nuts, walnuts. We used to eat bullfrog; that's a delicacy. And we used to eat squirrels and rabbits. And possums. Ever eat a possum? Don't try it." Norton (2015) gives some staggering facts:

"It wasn't unusual for 2,000 or 3,000 applicants to show up for one or two job openings. In the cities, hungry men and women lined up at soup kitchens. People survived on potatoes, crackers, or dandelion greens; some scratched through garbage cans for bits of food. In West Virginia and Kentucky, hunger was so widespread -- and resources so limited -- that the American Service Committee distributed food only to those who were at least 10 percent below the normal weight for their height ... In Albany, New York, a ten-year-old girl died of starvation in her elementary school classroom. Families, unable to pay rent, were evicted. Over a million men took to the road or the rails in desperate search of any sort of work ... Many young couples delayed marriage and put off having children. More than 25 percent of women who were between the age of twenty and thirty during the Great Depression never had a child." (A People & A Nation: A History of the United States, pp 703-713)

"The gross national product declined from the 1929 figure of $103,828,000,000 to $55,760,000,000 in 1933" (Great Depression, 2008, par. 2). In addition to the economic hardships, the Depression brought about physical, emotional and cognitive suffering as well (Barr, 2005). Deaths from hunger peaked. Deaths from suicide peaked. Homicide rates peaked.

In addition to economic, short-term effects, the Depression also had political, long-term effects. The Great Depression had a massive impact on American and European political realms. The New Deal policies (the strategy attempting to solve the crisis) had a profound effect on America and produced a wide array of programs that are still with us to this day. A deposit insurance system was created to defend deposits, and not a single depositor has lost a penny since deposit insurance was introduced according to the Federal Deposit Insurance Corporation. What's more, the government-funded social assistance services (pensions), which many take for granted today, originate from the New Deal and continue to make the lives of millions of elderly people easier (History Crunch 2013). Many scholars recognize the impact that the Great Depression had on the rise of extremist ideologies in Europe and on the events that led to World War II. When World War I ended in 1918, Germany was forced to agree to the terms of the Treaty of Versailles. In general, the terms severely punished and impoverished Germany.

Therefore, Germany was already economically ruined the situation only got worse when the effects of the Great Depression started spreading to the other side of the Atlantic. It was at this time that a certain Adolf Hitler rose to power, pledging to rebuild the German economy and retaliate against their nemesis. Alfred Sohn-Rethel put it nicely when he said, “Only when things went economically wrong for Germany did the Nazi Party flourish, and vice versa. Their election successes and their membership rose and fell in exact parallel to the unemployment figures. During the years of prosperity between 1924 and 1928 the Nazis as good as disappeared from the political arena. But the deeper the [economy] subsided into crisis, the more firmly did the fascist party sit in the saddle.”