

# The Great Depression

The Great Depression was the worst economic depression ever to affect the industrialized world which lasted from the stock market crash of 1929 till the beginning of World War II in 1939.

The Great Depression is an important topic with respect to the World History segment of the UPSC Mains Exam.

## Background of the Great Depression

After World War I, the economies of many European countries were in disarray. Germany had to pay reparations to Britain and France for starting the war, after the conditions laid down by the Versailles Treaty.

This led to the collapse of the German economy in the 1920s as well as that of other nations as well as they tried to pay back money borrowed to finance their war effort.

Most of the money borrowed to finance the war came from the United States. There, many people were starting to invest in stocks and shares pushing up the price of shares beyond their real value. Share prices reached a peak in August 1929, then started to dip. When they were still falling in October of that year, investors began to panic and sold their shares for whatever they could get.

Reckless selling made prices fall still further and thousands of investors lost all their money. This is called the Wall Street Crash of 1929 and it started an economic crisis as banks and businesses closed down, throwing people out of work.

## Consequences of the Great Depression

The situation was made worse as a severe drought hit the agricultural states of midwestern United States. The Dust Bowl was a vast area where the rich topsoil, worn away by droughts and over-farming, turned to dust and blew away in the wind.

Nothing would grow and many farms were abandoned as farmers and their families took what they could and went to start a new life in California.

The economic crisis in the US soon affected the whole world. The system of international loans depended on the US and collapsed as the money loaned overseas was called back home.

This brought economic problems to Europe, especially Britain and Germany, both of which had high unemployment. Many countries attempted to protect their own industries by passing their own laws placing import duties on foreign goods. At the height of the Depression in 1932, world

exports of raw materials had fallen by 70 % ruining the economies of many colonies which depended on the export of food and raw materials for their income.

## The New Deal

In 1933, a new government led by Franklin D Roosevelt introduced the New Deal. It included financial support for farmers and a construction programme to create more jobs, Banks were more closely regulated and savings were better protected

One of the programs that aided in recovery from the Great Depression was a new set of construction projects that built dams and hydroelectric projects. And the Works Progress Administration (WPA), a permanent jobs program that employed 8.5 million people from 1935 to 1943.

At the time of the Great Depression, the United States was the only industrialised nation with no form of employment protection or social security. In 1935, the United States Government passed the Social Security Act, which provided Americans with insurance and pensions for old age.

After showing early signs of recovery beginning in the spring of 1933, the economy continued to improve throughout the next three years, during which real GDP (adjusted for inflation) grew at an average rate of 9 per cent per year.

Meanwhile, in Europe, the economic hardships brought about by the Great Depression had led to the rise of various extremist political movements, especially that of Hitler and Nazi Germany. With war looming on the horizon, the United States Government shifted its focus in strengthening the military infrastructure, despite maintaining an outlook of neutrality.

## End of the Great Depression

Although the US Congress had adopted a policy of neutrality upon the outbreak of World War II in 1939, it was inevitable that the United States would not sit on the sidelines for too long. In preparation, defence manufacturing geared up, producing more and more private-sector jobs, hence reducing unemployment.

The war finally came to American shores when Imperial Japan attacked Pearl Harbor in December 1941. As a result, the nation's factories went back in full production mode

This expanding industrial production, as well as widespread conscription beginning in 1942, reduced the unemployment rate to below its pre-Depression level. The Great Depression had ended at last, and the United States turned its attention to the global conflict of World War II.

