The Great Depression

was a severe worldwide economic crisis in the decade preceding World War II. The timing of the Great Depression varied across nations, but in most countries it started in about 1929 and lasted until the late 1930s or early 1940s. It was the longest, most widespread, and deepest depression of the 20th century.

Effect

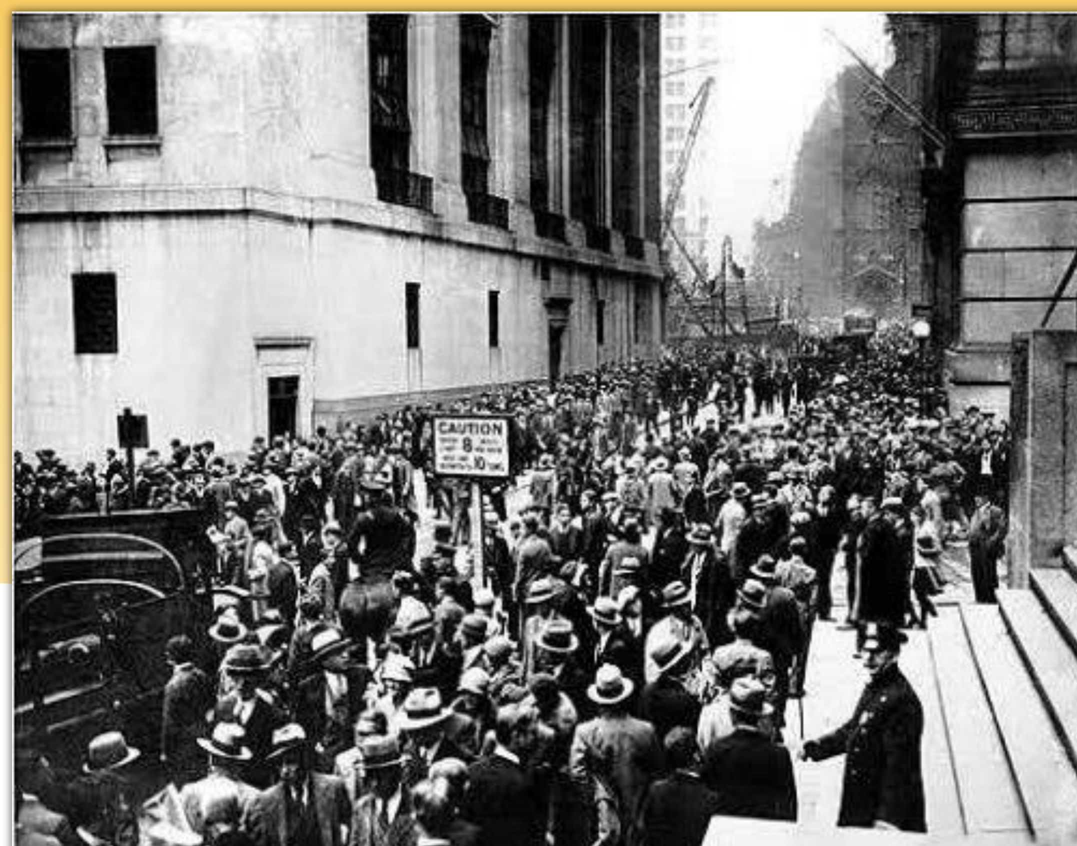
The Great Depression had devastating effects in virtually every country, rich and poor. Personal income, tax revenue, profits and prices dropped, while international trade plunged by more than 50%. Unemployment in the U.S. rose to 25%, and in some countries rose as high as 33%.

Some economies started to recover by the mid-1930s. But in many countries, the negative effects of the Great Depression lasted until the start of World War II.

Start of the Great Depression

The Great Depression started with sudden devastating collapse of US stock market prices on October 29, 1929, known as Black Tuesday, which was the most devastating stock market crash in the history of the Unated States. It signaled the beginning of the
10-year Great Depression.

Market collapse and financial panic

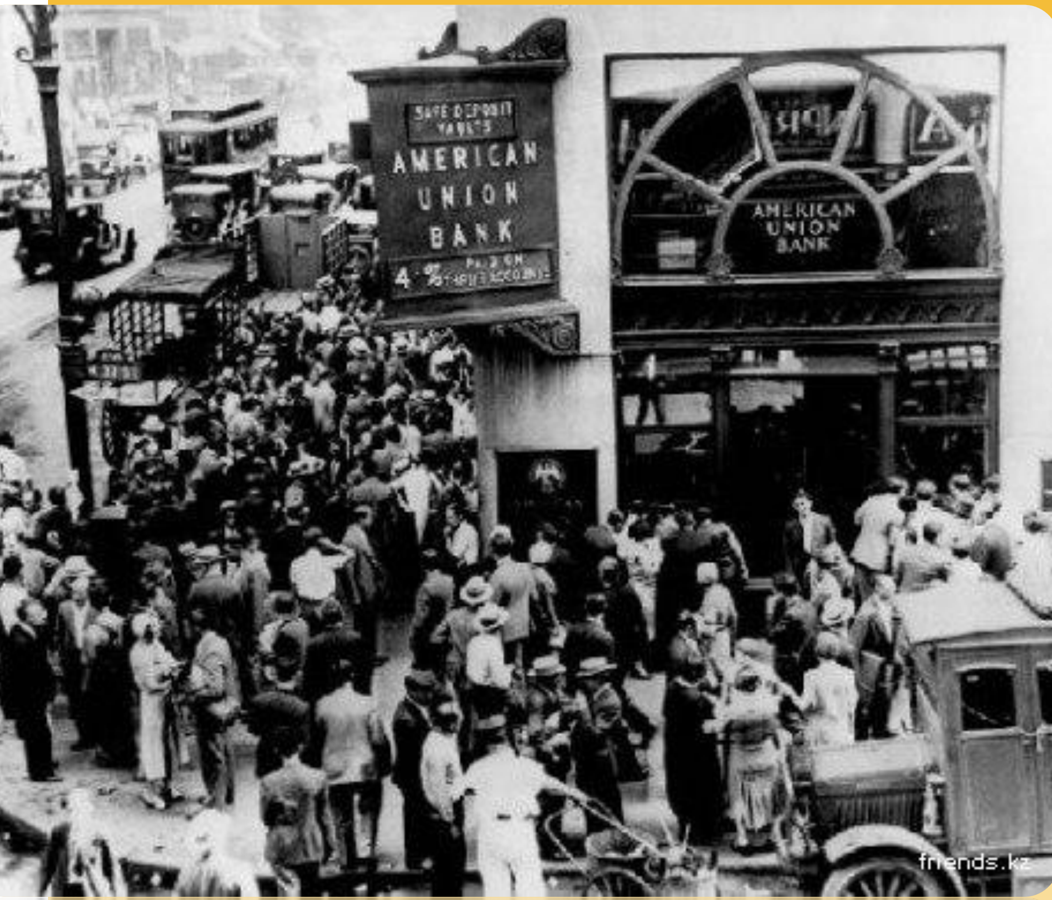


Constant demand for shares made their price higher and higher.

During the 1928-29 years prices reached extreme heights.

Shareholders became worried at first, then panicked. October 24 ("Black Thursday"), investors in unison "dropped" 12 million shares, and it was only the beginning.

Now everything went in reverse order: the sharp sale of stocks knocked the prices, which has led to new sales.



Buyers on margin, being disabled to pay the rest of repayment, lost their shares, group of companies couldn’t cover costs and become bankrupt.

Although panic and stock market sell-off ceased, the rate continued to fall for nearly three years.

The banks demanded disbursement of loans.

The crisis of public confidence struck the banks whose depositors started to withdraw their savings. As a result about 5,000 U.S. banks were forced to close.

Overproduction in rural economy

* The core of the problem was the immense disparity between the country's productive capacity and the ability of people to consume. Great innovations in productive techniques during and after the war raised the output of industry beyond the purchasing capacity of U.S. farmers and wage earners

Farm production outpaced demand to such a high degree that the price of wheat dropped from $1.37 to 61 cents a bushel in 1930. Prices were so low that wheat farmers were losing $1.50 on every acre they planted. Some farmers were destroying agricultural goods to try to raise prices by reducing supply

* Over one million families lost their farms between 1930 and 1934

The New Deal

The New Deal years were characterized by a belief that greater regulation would solve many of the country's problems. In 1933, for example, Congress passed the Agricultural Adjustment Act (AAA) to provide economic relief to farmers. The AAA had at its core a plan to raise crop prices by paying farmers a subsidy to compensate for voluntary cutbacks in production

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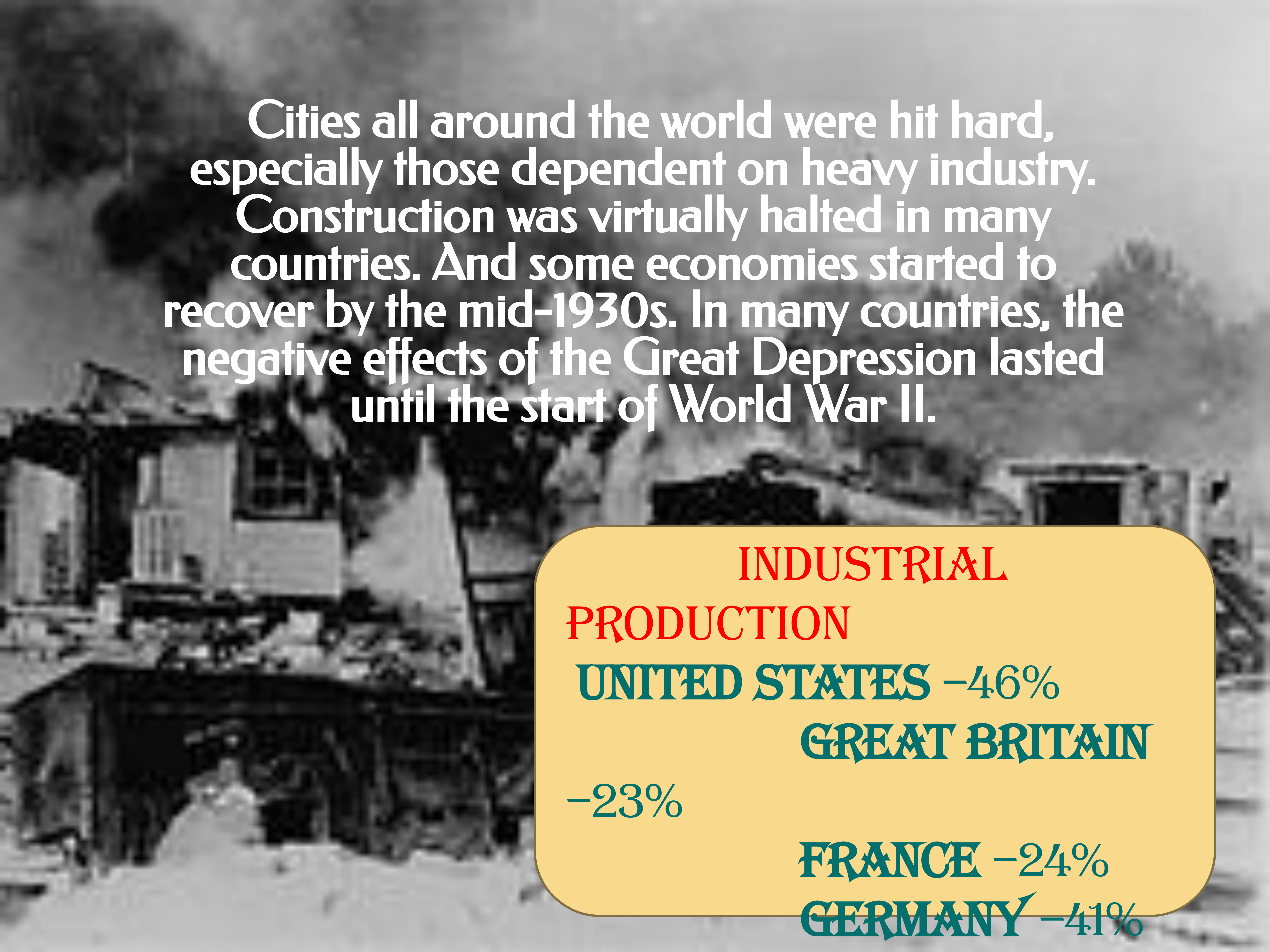


Cities all around the world were hit hard, especially those dependent on heavy industry. Construction was virtually halted in many countries. And some economies started to recover by the mid-1930s. In many countries, the negative effects of the Great Depression lasted until the start of World War II.

INDUSTRIAL PRODUCTION

UNITED STATES –46%

GREAT BRITAIN –23%

FRANCE –24%

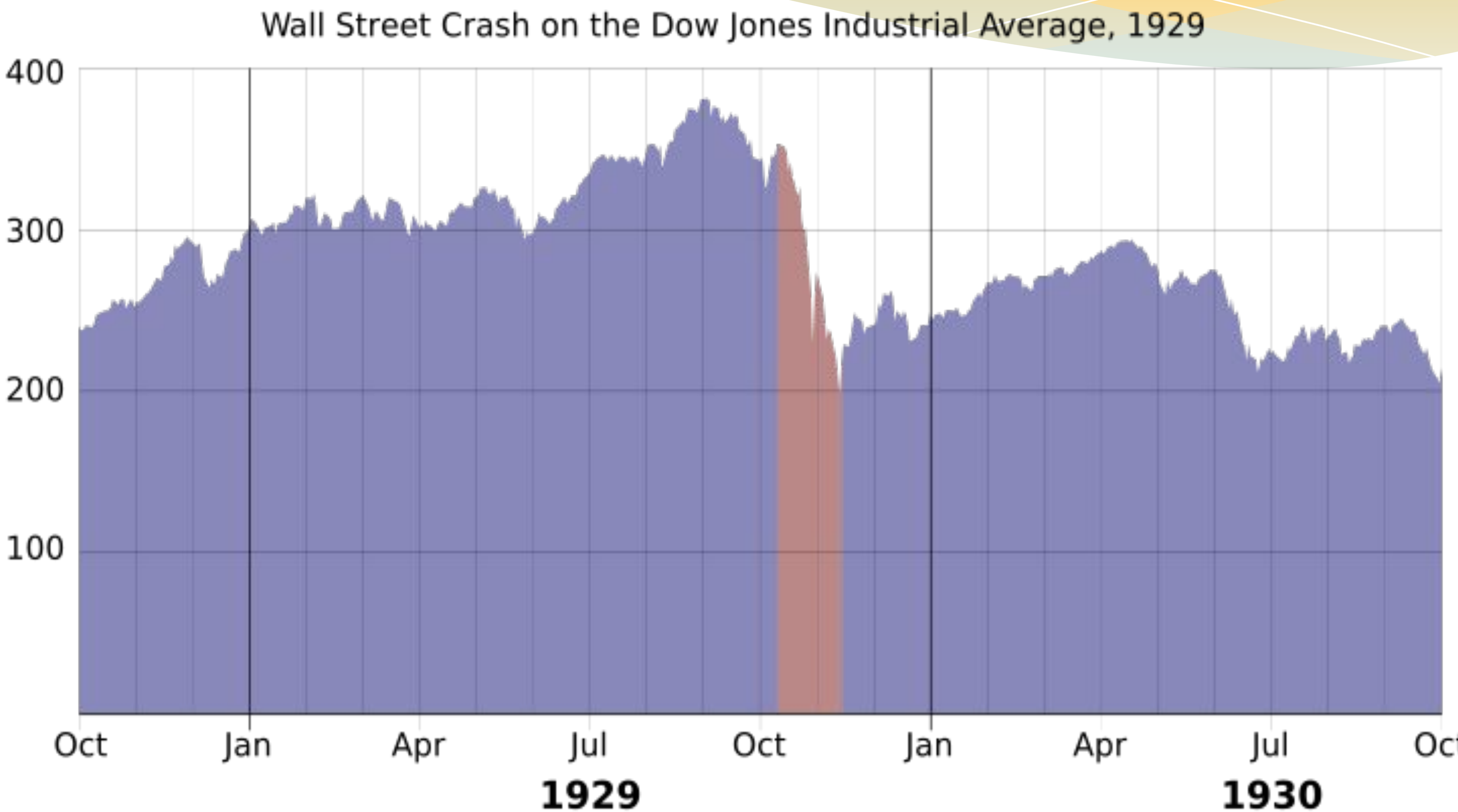
GERMANY –41%

FINANCIAL INEQUALITY

in the period of Great Depression

William Trufant Foster:

The economy produced more than it consumed, because the consumers did not have enough income. Thus the unequal distribution of wealth throughout the 1920s caused the Great Depression.


Wall Street Crash on the Dow Jones Industrial Average, 1929
400
300
200
100
Oct
Jan
Apr
Jul
Oct
Jan
Apr
Jul
Oct
1929
1930