



# The Great Depression

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# Agenda



## 1918-1929

- Preconditions
- Causes
- Stock market crash 1929

## 1929-1935

- Start of the Great Depression
- Political measures by Hoover
- Roosevelt's New Deals

## 1936-1941

- End of the Great Depression
- Future Learnings
- Summary

# 1918-1929: Global Situation

## • USA

- Global engine of recovery after WW1
- Stable economy in early 1920s
- Consumer goods-boom
  - E.g. Henry Ford & economies of scale
  - Low interest rates on bank loans

## • Europe

- Suffering from intensive inflation & later deflation after WW1
  - Wish for stable economy & normality → uncoordinated return to normality

**1918-1929**

**1929-1935**

**1936-1941**







<https://www.bl.uk/collection-items/arras-ruins> (as of 08 March 2020)

# 1918-1929: Global Situation

- Globalization and US loans

- USA → loans to European countries
- European countries have money again → buy from US (& sell)
- Perceived state of normality (wage increase > productivity increase)  
→ Global economies become increasingly interrelated

- Increasing dependency on US

- Buy European exports
- Maintain high international lending

**1918-1929**

**1929-1935**

**1936-1941**



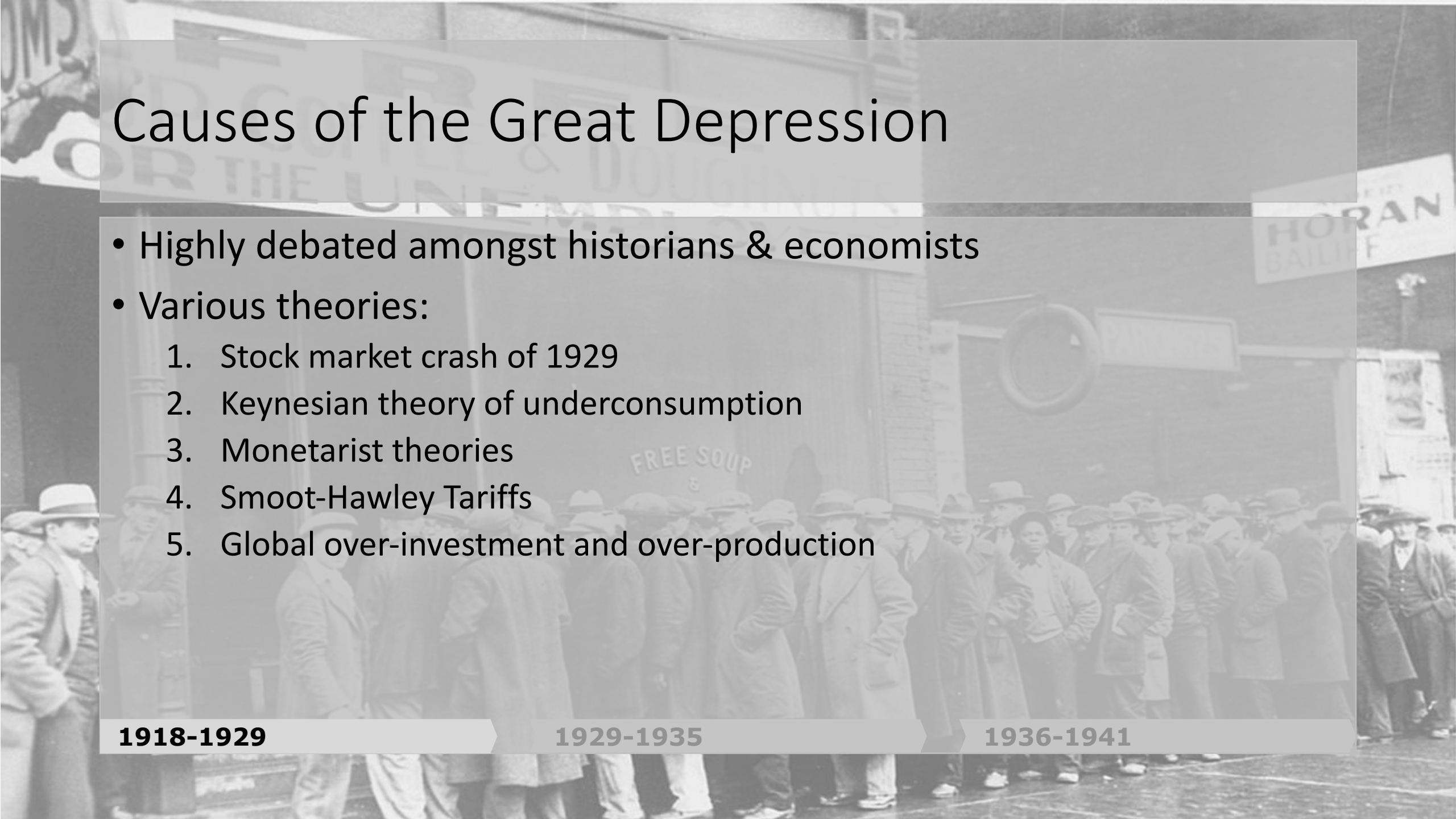
# Causes of the Great Depression

- Highly debated amongst historians & economists
- Various theories:
  1. Stock market crash of 1929
  2. Keynesian theory of underconsumption
  3. Monetarist theories
  4. Smoot-Hawley Tariffs
  5. Global over-investment and over-production

**1918-1929**

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# 1. Stock Market Crash of 1929

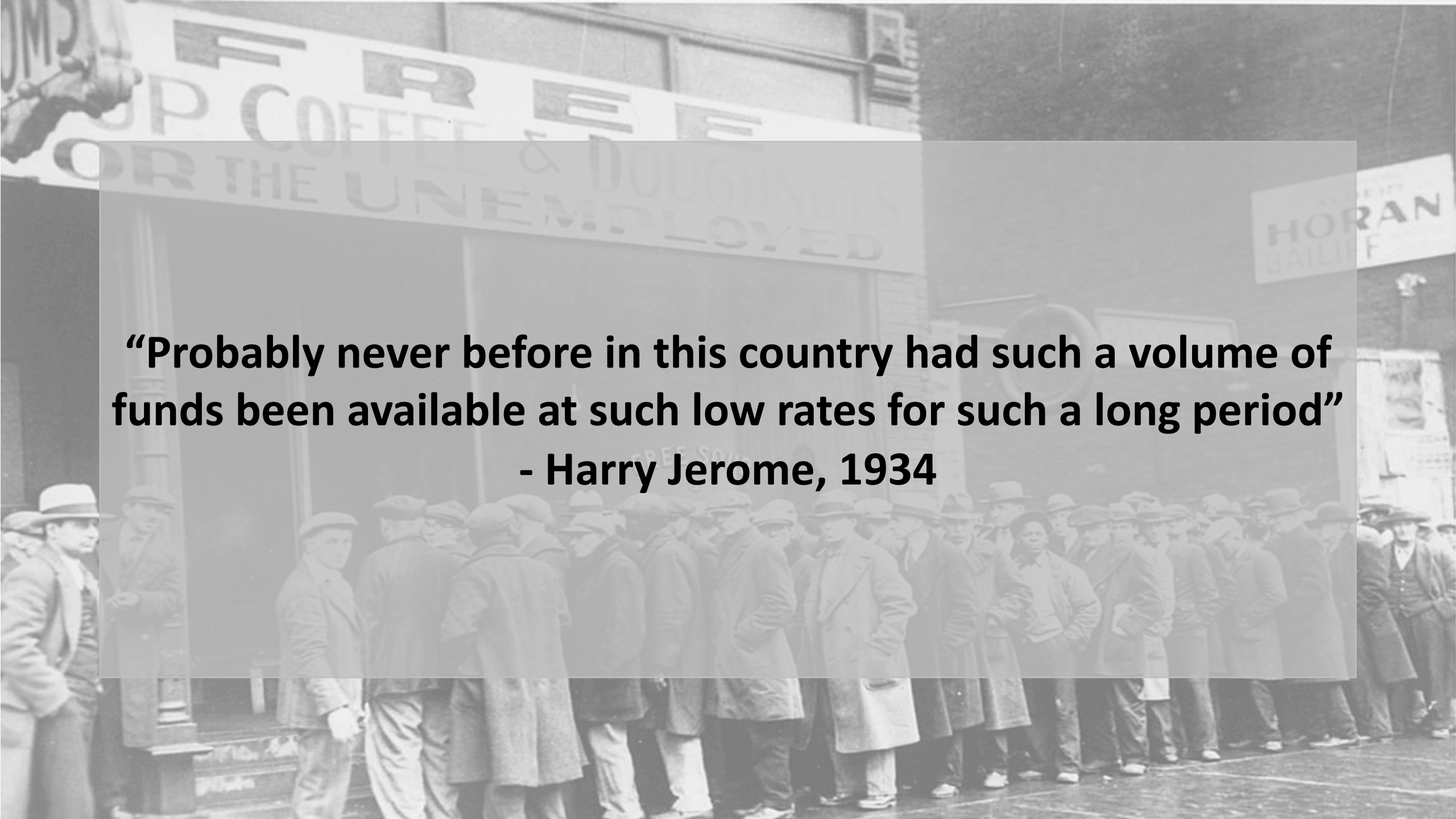
- Stock market crash = main trigger for depression
  - Credit boom in 1920s
  - Buying on margin
  - Investor's optimism
  - Disappointing results on 24 Oct 1929 – 'black Thursday'
    - General panic & downward spiral
  - Institutions restore faith by buying shares
    - Lasts until 'black Tuesday' 29 Oct 1929

**1918-1929**

**1929-1935**

**1936-1941**





**“Probably never before in this country had such a volume of funds been available at such low rates for such a long period”  
- Harry Jerome, 1934**

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## 2. Keynesian | 3. Monetarist Theories

### 2. Keynesian: Underconsumption of households & businesses

- Loss of confidence → lower investments & consumption
  - *Gov. spending*
  - *Lower taxes*
    - *Positive employment rates*

### 3. Monetarist: Too little money supply

- Money to banks suffering bank runs
  - Prevent bank failures & conservative loans of surviving banks

**1918-1929**

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## 4. Smoot-Hawley | 5. Overproduction

4. Smoot-Hawley: US tariffs → negative impact on US and global economy

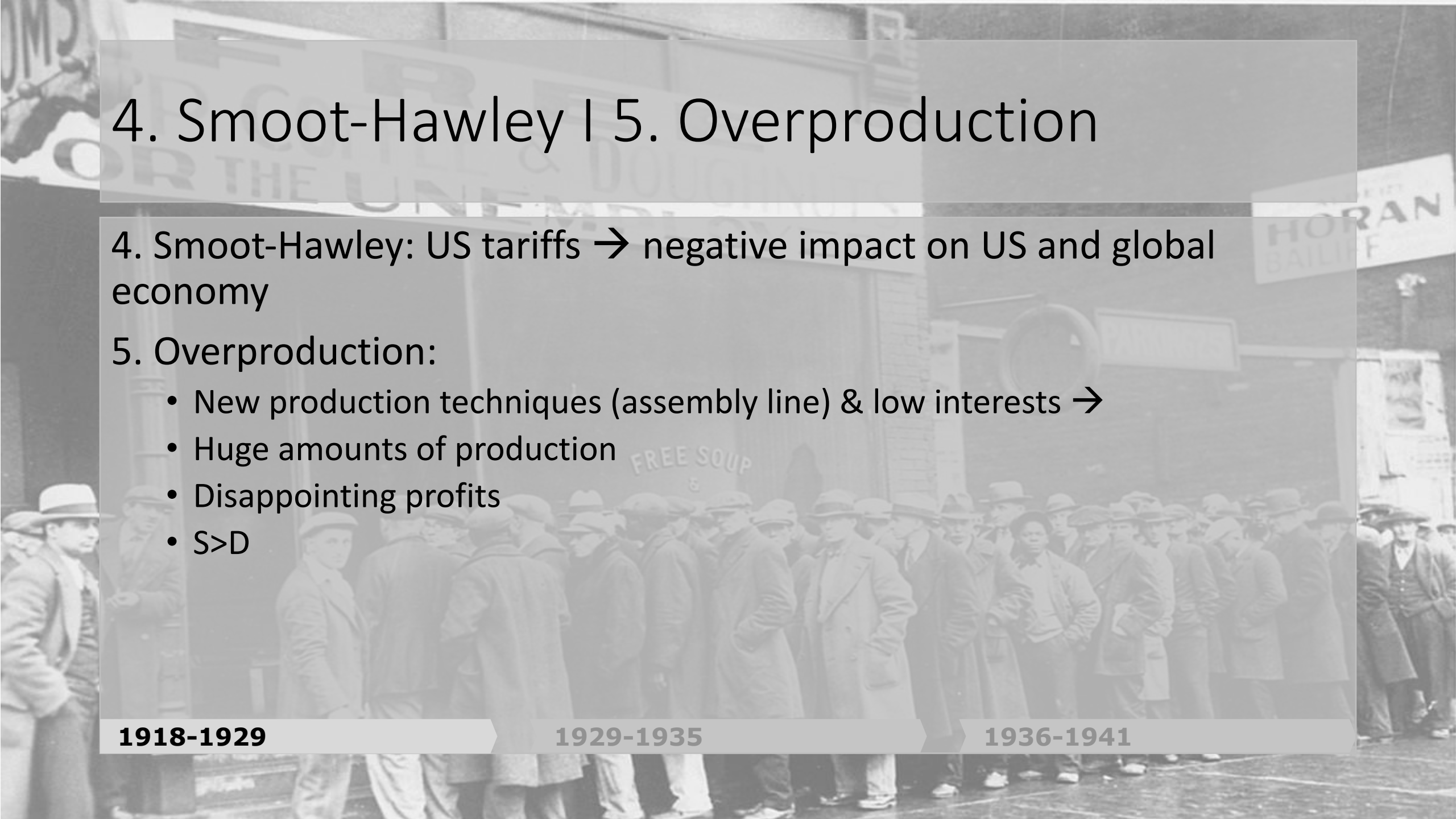
5. Overproduction:

- New production techniques (assembly line) & low interests →
- Huge amounts of production
- Disappointing profits
- $S > D$

**1918-1929**

**1929-1935**

**1936-1941**



# End of 1929

- 650 bank failures
- Personal bankruptcies
- Business bankruptcies
- Rise of unemployment rate



<https://www.youtube.com/watch?v=62DxELjuRec>

Unemployment rate:		3,2%
GDP growth:	↓	-8,5%
Inflation/ Deflation:	↓	-6,4%

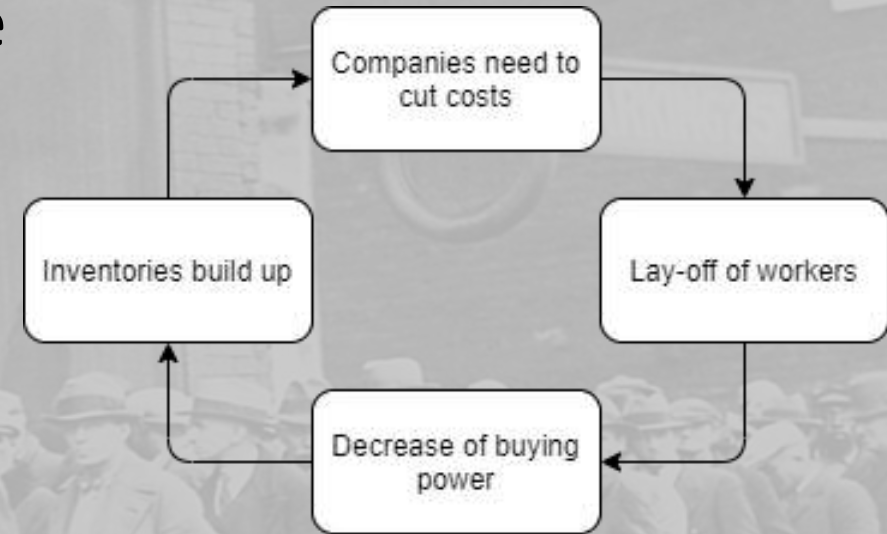
1918-1929

1929-1935

1936-1941

# 1930

- Crisis has global impact, especially on Germany, Great Britain and France
- Tariff act by Hoover
- 1300 bank failures
- Bank runs start



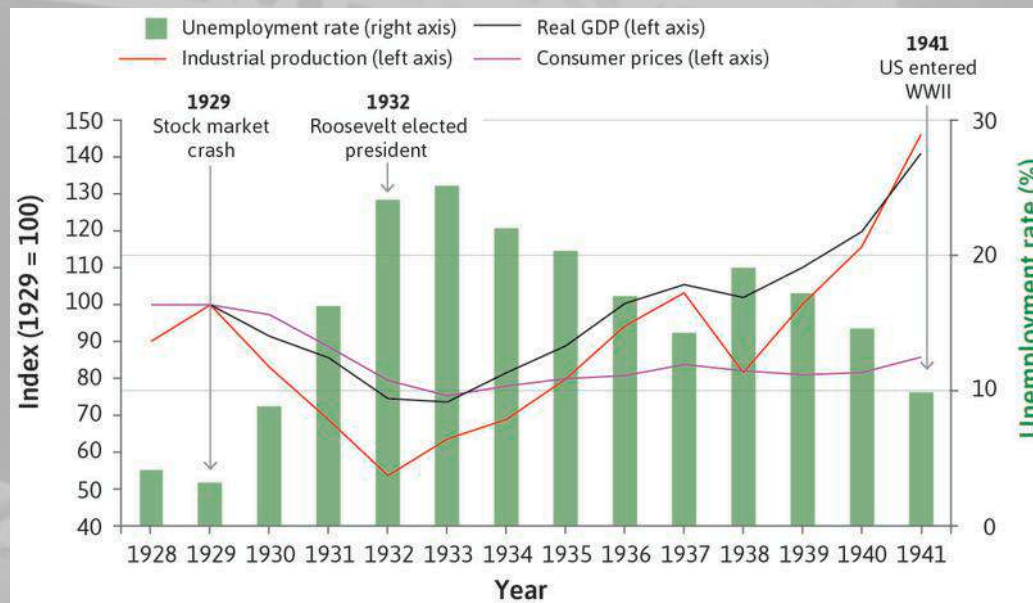
Unemployment rate:	↑	8,7%
GDP growth:	↓	-8,5%
Inflation/ Deflation:	↓	-6,4%

1918-1929

1929-1935

1936-1941

# 1931



**Unemployment rate:**

↑ **15,9%**

**GDP growth:**

↓ **- 6,4%**

**Inflation/ Deflation:**

↓ **-9,3%**

1918-1929

1929-1935

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# 1932

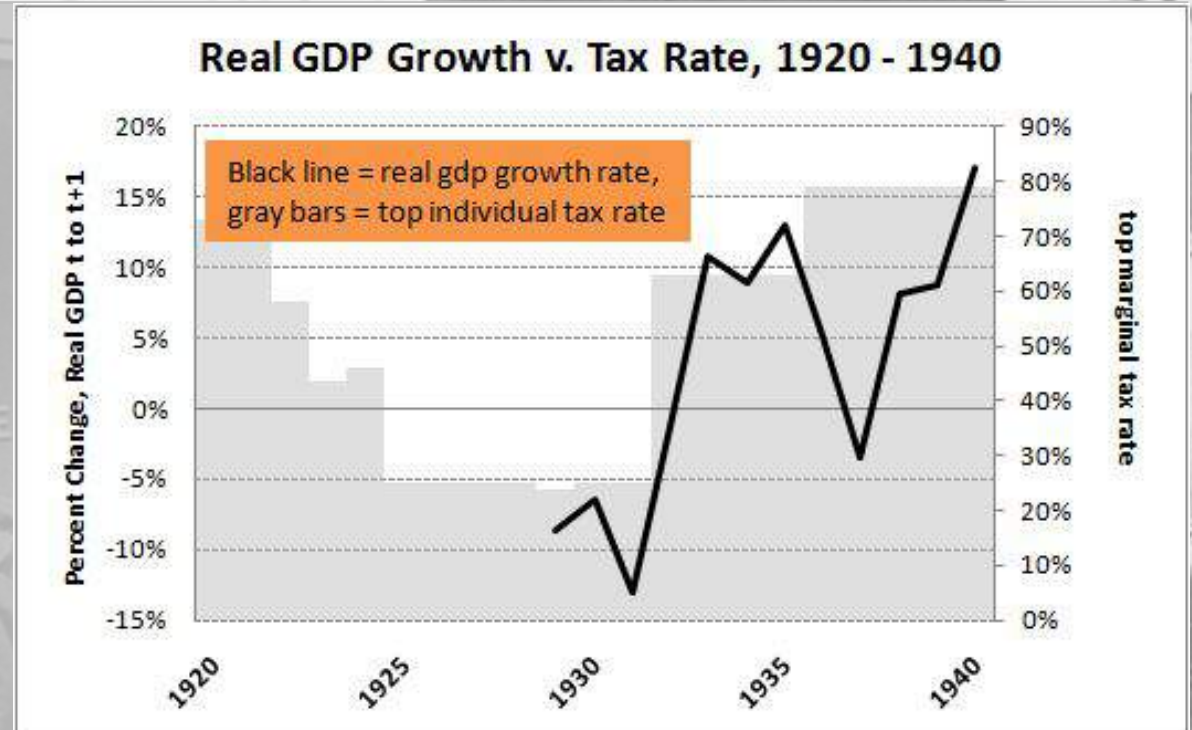
- 10 million people out of work in the USA
- Revenue Act: Income tax rate of 63%

Unemployment rate: **↑ 23,6%**  
Economic growth: **↓ - 12,9%**  
Inflation/ Deflation: **↓ -10,3%**

1918-1929

1929-1935

1936-1941

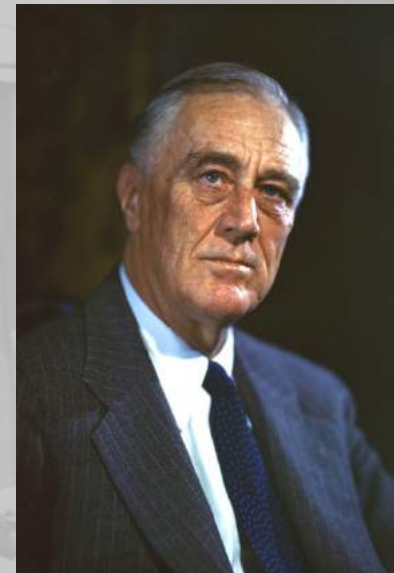


<https://angrybearblog.com/wp-content/oldimages/angrybear/1/-wclksAuCMvI/TIEFG1GWw9I/AAAAAAAAArs/MKcrCHxjMQg/s1600/1929 - 1940.jpg>



# 1933-1934

- Emergency Bank Act
- 1<sup>st</sup> New Deal
  - Goal: Increase employment
    - Public Works Administration
    - National Industry Recovery Act
    - Agricultural Adjustment Statement



[https://upload.wikimedia.org/wikipedia/commons/thumb/4/42/FDR\\_1944\\_Color\\_Portrait.jpg/1200px-FDR\\_1944\\_Color\\_Portrait.jpg](https://upload.wikimedia.org/wikipedia/commons/thumb/4/42/FDR_1944_Color_Portrait.jpg/1200px-FDR_1944_Color_Portrait.jpg)

1933

Unemployment rate: **↑ 24,9%**

Economic growth: **↓ - 1,3%**

Inflation/ Deflation: **↑ +0,8%**

1934

Unemployment rate: **↓ 21,7%**

Economic growth: **↑ +10,8%**

Inflation/ Deflation: **↑ +1,5%**

1918-1929

1929-1935

1936-1941

# 1935

## 2<sup>nd</sup> New Deal

Goal: Economic security

- Emergency Relief Appropriation
- Social Security Act

Unemployment rate: ↓ 20,1%

Economic growth: ↑ +8,9%

Inflation/ Deflation: ↓ +3,0%

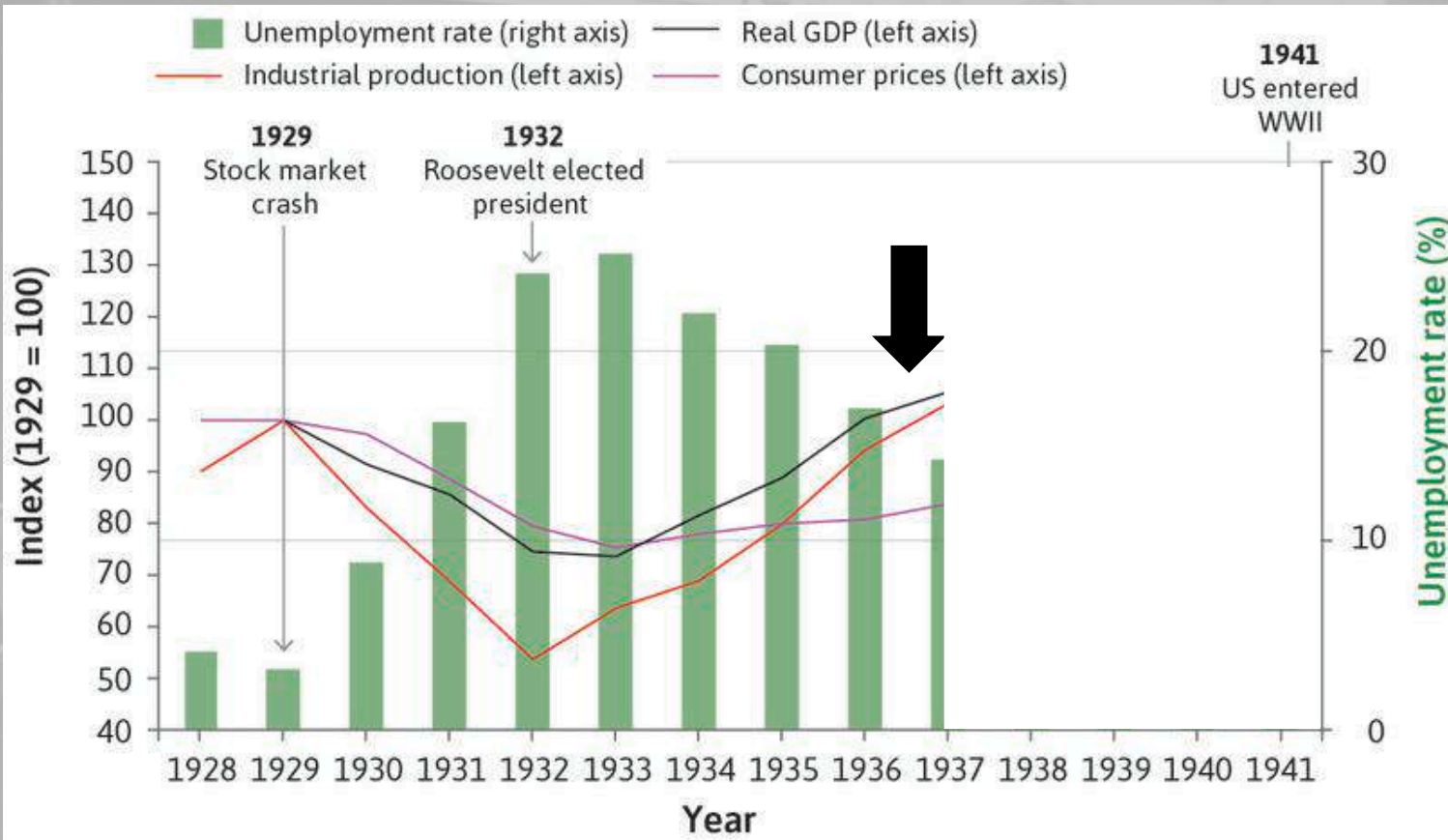
1918-1929

1929-1935

1936-1941



# 1936



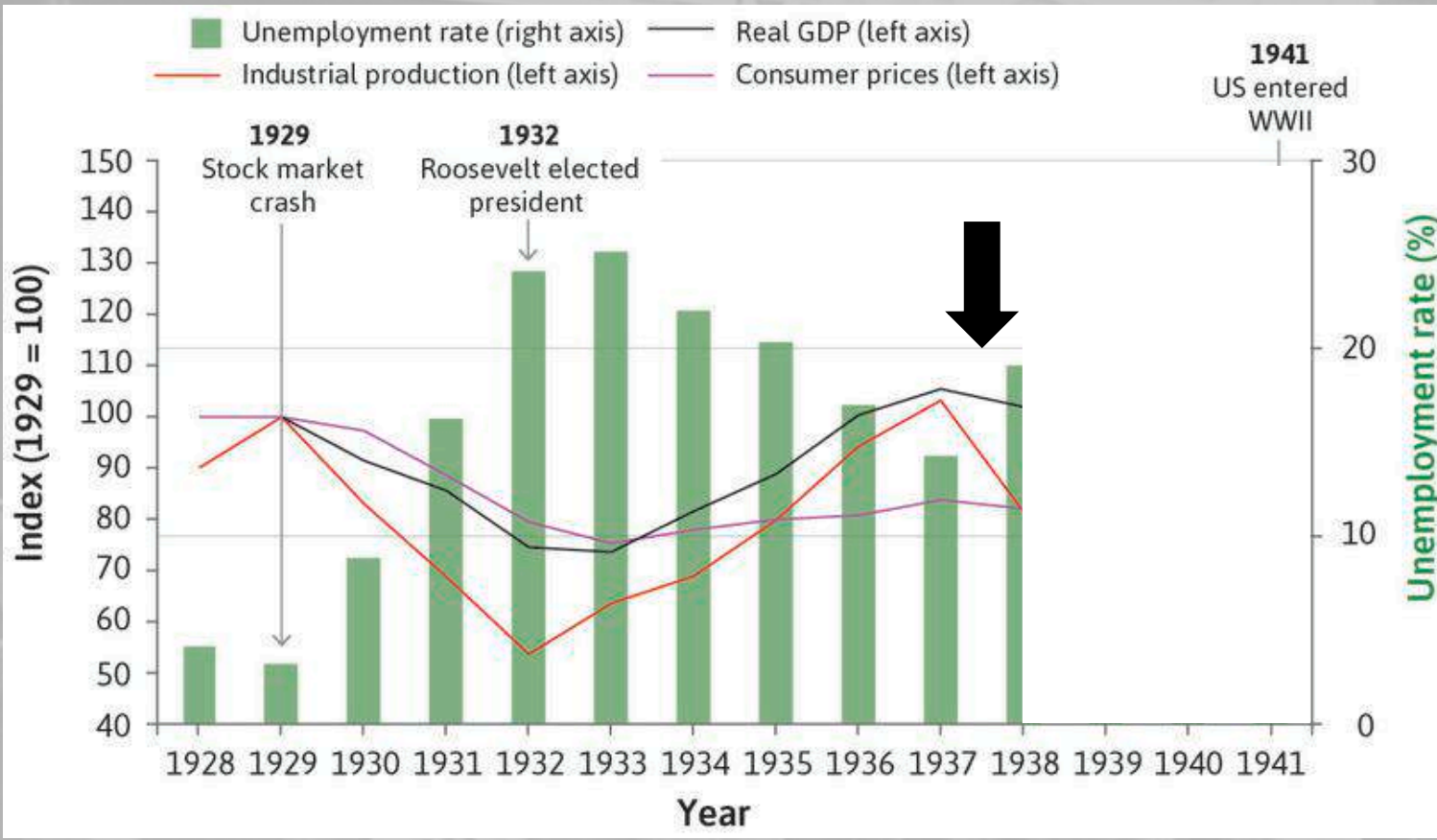
- Real GDP and production reached basis of 1929 again
- Unemployment still high, but steadily falling
- **Great Depression seemed to be over soon**

1918-1929

1929-1935

1936-1941

# 1937



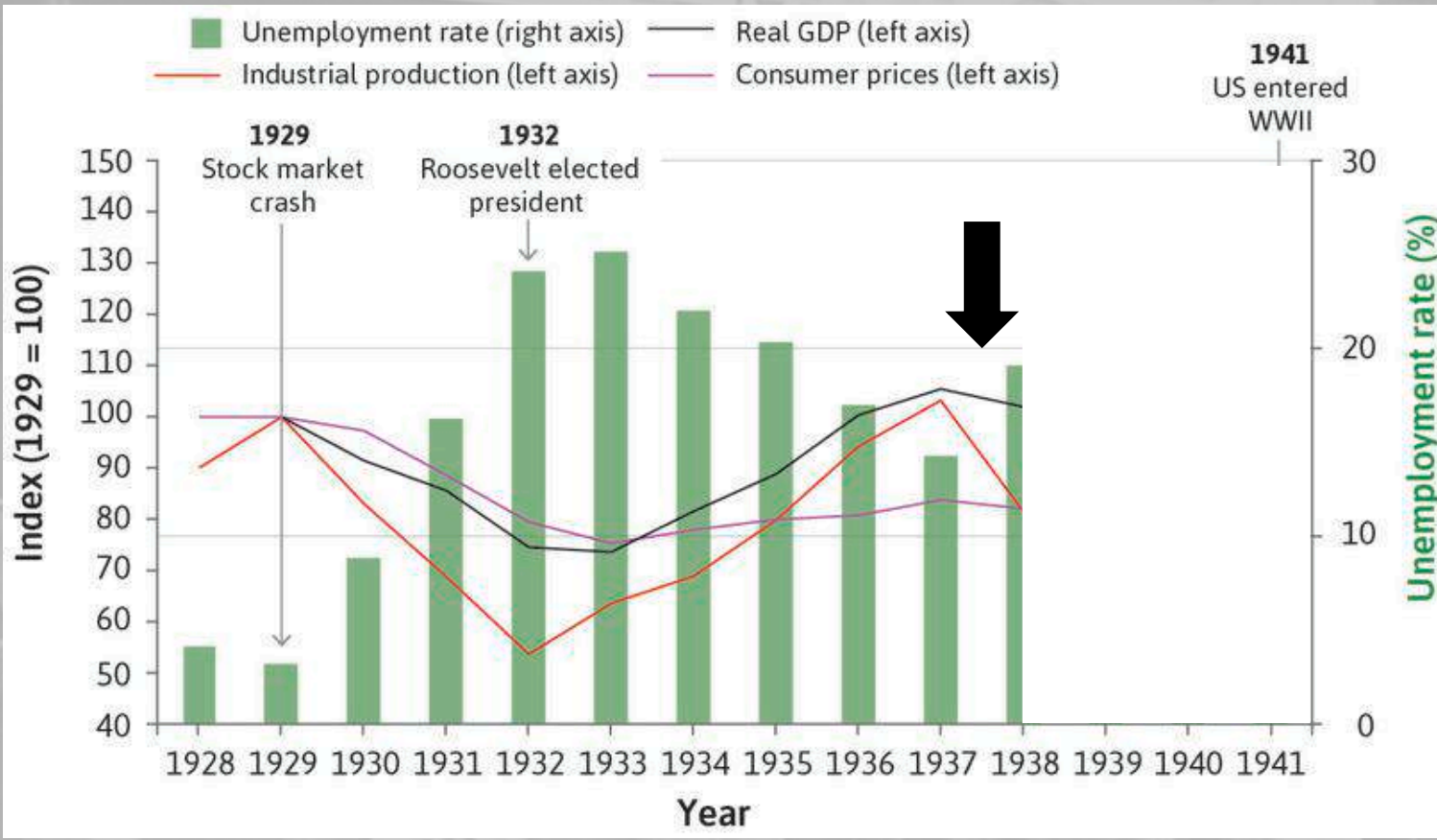
1918-1929

1929-1935

1936-1941



# 1937



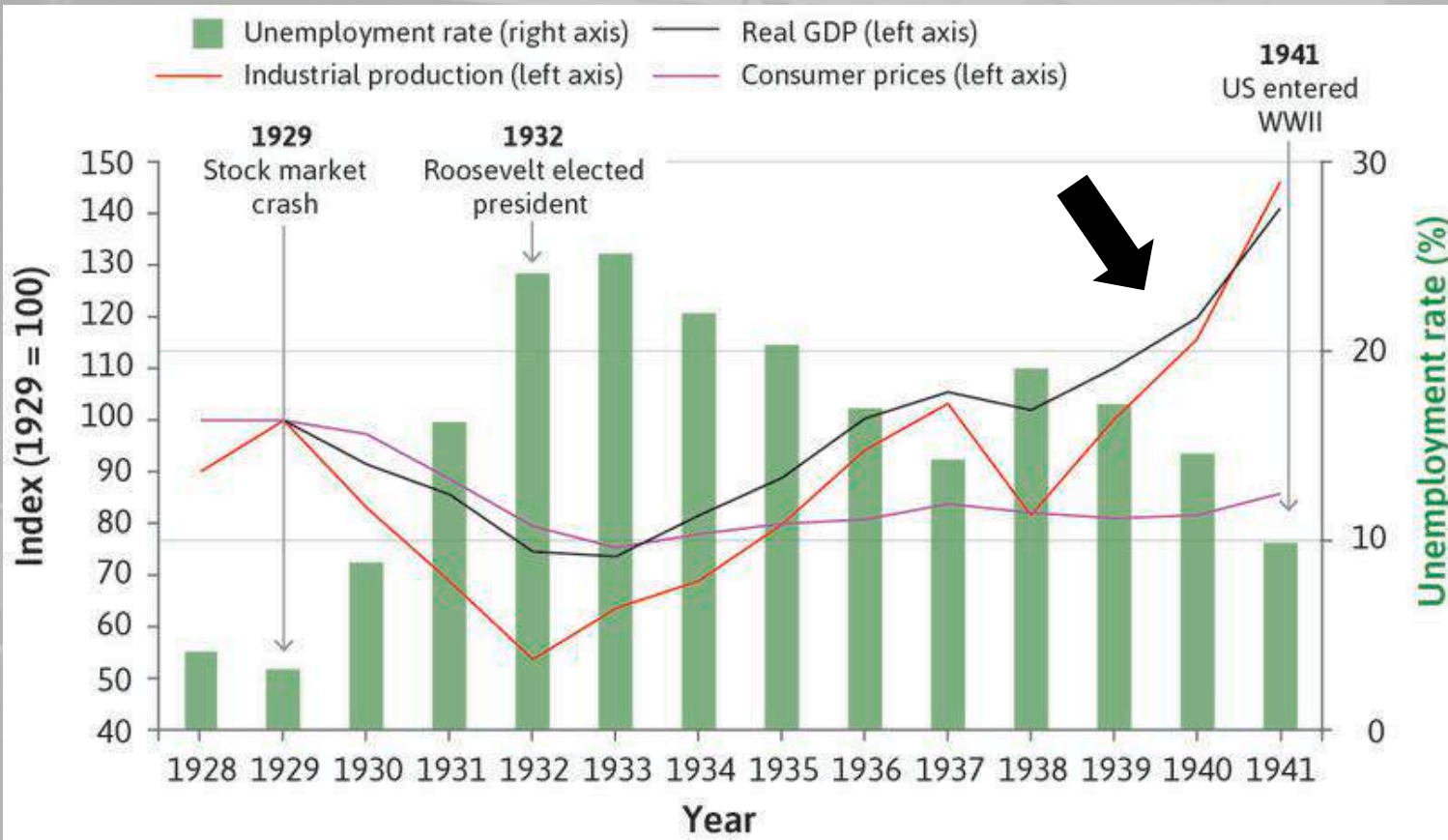
- Rapid withdrawal of governments' economic support
- Contraction in the money supply
- **Goal: combat potential inflation**
- Sterilized gold inflows
- Drought 1936

1918-1929

1929-1935

1936-1941

# 1938 - 1941



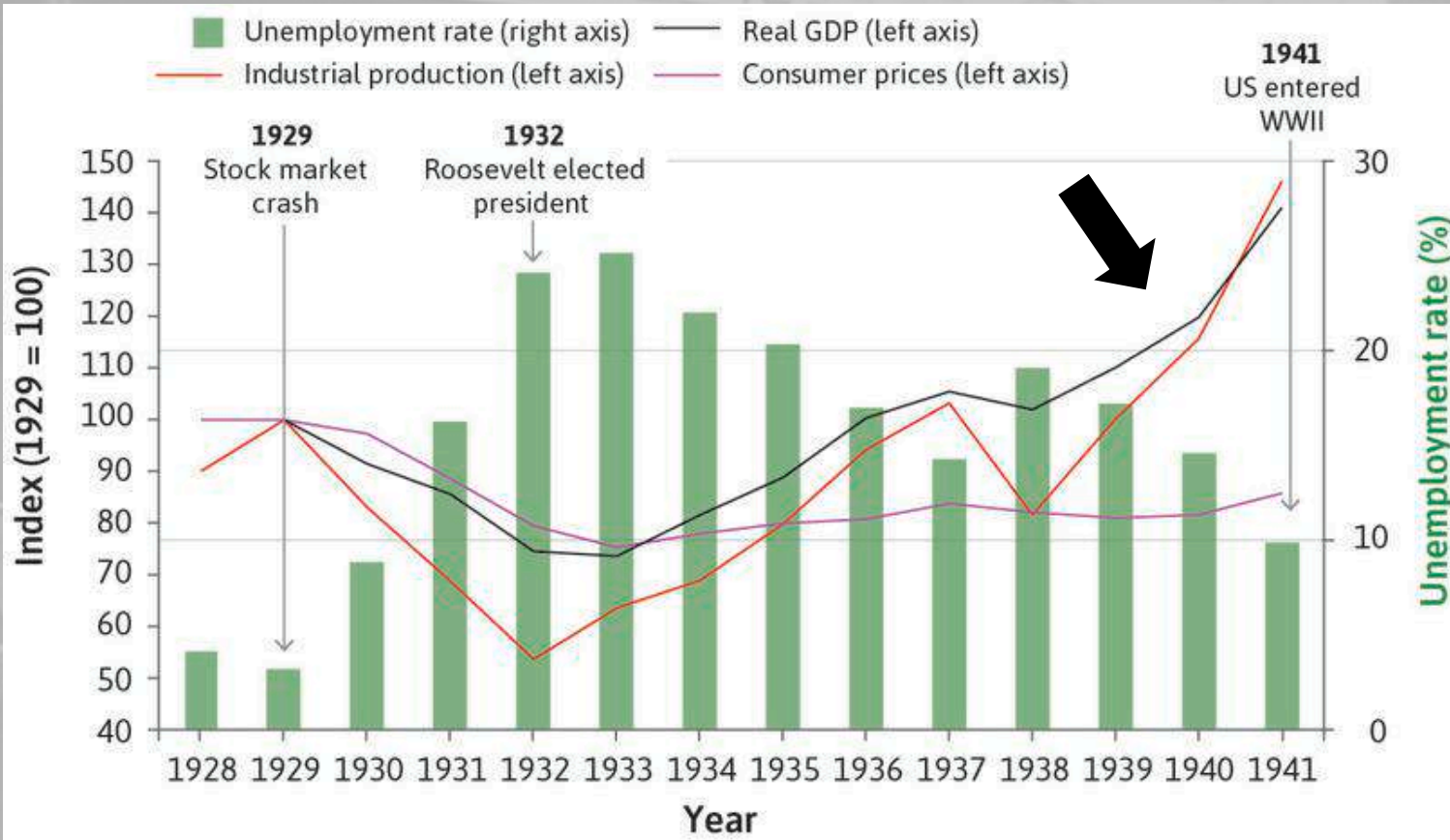
1918-1929

1929-1935

1936-1941



# 1938 - 1941



- \$5 billion spending program for **mass consumption**
- Unemployment rate decreased due to rise in military.
- Recovery: **Economic output grew 49% (1939 – 1942)**

1918-1929

1929-1935

1936-1941

# Learnings



- Investors' Awareness

- Greed and fear (Index)
- Speculation and debt (Leverage)
- Bubble creation (Insider vs. Outsider)
- Information and common sense

- Bank and Government intervention

- Bubble creation (Burst bubble intentionally before potential crash)
- Avoid bank runs (Provide cash in times of crisis)
- Protect wealth of citizens (Federal Deposit Insurance Organization)



# Summary

- The Great Depression was caused by a high unemployment that started in the 1920s.
- The stock market crash, Hoover's laissez-faire politics and the government's reluctance to supply money to the economy exacerbated the Great Depression.
- Both the deflation and the fall of GDP lead to an increase in unemployment.
- The crisis spread internationally through global financial markets and the gold standard as peg- Roosevelt's intervention through the New Deal regulations and associations started the recovery of the American recovery process.



**Thank you for your  
attention!**

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