

GREAT DEPRESSION

Content

- A. Great Depression
- B. Economic development after the crisis
- C. Germany in 1930s

Great Depression

1. USA
2. World

A1. Course of the Great Depression in USA

- **sources already in 1920s**
 - banks + agriculture + speculations on the stock exchange
- ↓ since 1928 ⇒ BUT decline at the end of 1929
- **mid-1929 Eur (GB, DE and IT) already in crisis**
 - X USA positive expectations in connection with the stock exchange BUT already at that time ↓ building and automobile production
 - after the collapse of the stock exchange momentary ↑ and then sharp ↓↓

- **1929/33 in USA**

- ↓ GNP by 30 % (bigger decline according to certain authors)
- ↓ industrial production by 50 %
- U in 1933 = 25 % without sign of decline
- ↓ price level by 1/3
 - ↓ prices of agricultural production by 60%
- banking crisis
 - 1929 = 24 000 small - 3 waves of depression: 1. turn of 1930/31-- 2. later in 1931 -- 3. mid-1932 – winter 1933 ⇒ bankruptcy of Σ 9 000 banks + deposits total of 7 000 millions \$
 - FED did not help – did not fulfil its function
- ↓ EX by 69% (↓ AD)
- ↓ gross domestic INV by 90% (↓ AD)
- ↓ consumption by 20% (↓ AD)
 - ↓ stock exchange + financial crisis+ bad situations ⇒ ↑ uncertainty ⇒ ↑ savings of households

- ⇒ ↓AD ⇒ **Keynes**

Economic indicators in the USA, 1929 – 1940

Year	U	Real GDP	C	I	G	Money supply	Price level	Inflation
1929	3.2	203.6	139.6	40.4	22	26.6	50.6	-
1930	8.9	183.5	130.4	27.4	24.3	25.8	49.3	-2.6
1931	16.3	169.5	126.1	16.8	25.4	24.1	44.8	-10.1
1932	24.1	144.2	114.8	4.7	24.2	21.1	40.2	-9.3
1933	25.2	141.5	112.8	5.3	23.3	19.9	39.3	-2.2
1934	22	154.3	118.1	9.4	26.6	21.9	42.2	7.4
1935	20.3	169.5	125.5	18	27	25.9	42.6	0.9
1936	17	193.2	138.4	24	31.8	29.6	42.7	0.2
1937	14.3	203.2	143.1	29.9	30.8	30.9	44.5	4.2
1938	19.1	192.9	140.2	17	33.9	30.5	43.9	-1.3
1939	17.2	209.4	148.2	24.7	35.2	34.2	43.2	-1.6
1940	14.6	227.2	155.7	33	36.4	39.7	43.9	1.6

Stock Exchange

- **Black Friday** on October 24
- next Tuesday on October 29 another ↓ = **Black Tuesday**
 - huge ↓ prices of stocks and indexes
 - record in the amount of traded shares
- **problem: 4/5 of shares purchased at loan**
 - demand of banks to immediately pay the debts ⇒ investors issued new shares ⇒ another ↓ prices + removal of assets from Eur ⇒ strangling of Eur markets
- **crash** might lead to decline BUT not to 10 years problems !!!

Development of the Dow-Jones Index (1923-1938) – monthly values



Causes of the depression

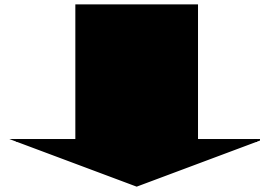
- ↓ **international trade**
 - responsibility of USA= Smoot-Hawley Tariff 1930
 - worldwide reactions
 - + USA before the crisis $EX > IM$ \Rightarrow more than proportional impacts
 - + decline of US share in the world trade
- **weak banking system**
 - anti-monopoly laws
 - stock Exchange
 - indebted agriculture and consumers
 - weak control of the banking sector
 - + prosperity as cover for problems
- considerable **concentration of production**
 - bankruptcy of certain companies -> huge impact on the economy

- **monetary policy**

- restrictive policy of FED
 - sterilization of gold inflow
 - reduction of money supply in 1929/33 by 25% (certain authors – by 31%)
 - high interest rates \Rightarrow \downarrow INV
 - \Rightarrow deepening of the crisis
- FED did not help banking sector

- **fiscal policy**

- restrictive (insufficiently expansive) – Hoover - \uparrow T
- Attempt of balanced budget (also Roosevelt)



not only one cause BUT coincidence of various causes

+

impossible to avoid crisis X its deepness b/c econ. policy

A2. World in crisis

- enormous decline of GDP, industrial production and international trade
 - BUT considerable differences among countries
- content
 - reasons for the spread
 - impact of USA
 - course
 - financial crisis
 - international policy
 - economic policy

Reasons for the spread *impact of USA*

- **USA superpower** \Rightarrow large impact on the rest of the world
- **BUT did not play the role of superpower**
 - no stabilization of the system X own problems
- **restrictions on IM of goods**
 - Smoot - Hawley = isolationism \Rightarrow limited possibilities to gain \$ \Rightarrow problems with debt and BofP \Rightarrow protectionism – chaotically – not in line with agreements + take away form AU currencies
- **restrictions on EX of capital**
 - borrowings of other countries (with exception of DE)
 - C for INV + for debt payments + for problems with BofP
 - reasons of \Downarrow US foreign INV
 - speculations on the stock exchange
 - US conjuncture FED - \Uparrow r

The total of US foreign investments, 1924-1929 (USD million)

Year	1924	1925	1926	1927	1928	1929
Investments	969	1.076	1.125	1.337	1.251	671

Other reasons for the spread

- **disruption of international system after WWI**
 - protectionism
 - reparations
 - debts
- **after-war instability of currencies**
 - overvalued pound
 - undervalues franc, ...

Course of the crisis

- **differences among countries**

- the mostly affected USA, DE and PL X VB and JP not much
- FR not too deep, but long-term
- DE deep and short-term
- GB small ↓ + already in 1934 = 1929
- USSR not affected – isolation from WE

Industrial production in selected countries (1929=100)

	1927	1928	1929	1930	1931	1932	1933	1934	1935
France	79	91	100	100	89	69	77	71	67
Germany	102	99	100	86	68	53	61	80	94
Italy	-	92	100	92	78	67	74	81	92
Japan	83	90	100	95	92	98	113	129	142
Poland	87	100	100	82	70	54	56	63	66
GB	96	94	100	92	84	84	88	99	106
USA	89	93	100	81	68	54	64	66	76

Price drop in selected countries, 1928-1931 (price level in 1928=100)

	1928	1929	1930	1931
France	100	93	79	65
Germany	100	96	84	74
Italy	100	93	75	66
Japan	100	91	71	67
Switzerland	100	96	81	71
USA	100	96	82	71

International financial crisis

- 1920s franc undervalued \Rightarrow FR + USA inflow of gold
 - X pound overvalued \Rightarrow outflow of gold
 - 220 years stable exchange rate
- 1931 crash Credit-Anstalt \Rightarrow financial panic in AT \Rightarrow connection with DE = crash of one of the largest DE banks Darmstädter und National (Danatbank) \Rightarrow financial rehabilitation of banks = nationalization
- \Rightarrow spread of panic to GB \Rightarrow pound unable to resist = devaluation by 10% \Rightarrow turning point \Rightarrow economy of GB \uparrow + other countries loss of 10% deposits
- \Rightarrow **majority of countries renounced the gold standard**

International trade

- complete **collapse of trade**

- trade barriers
- collapse of the monetary system
- 1929 – 1933 – ↓ trade to 1/3
- importers of raw materials – no demand for raw materials ⇒ no purchases of manufactures by producers of raw materials ...
- 1938 total amount of EX < 1913

Economic policy

- emphasis on **balanced budget**
 - recession - \downarrow collected T + \uparrow $U \Rightarrow \downarrow$ G and \uparrow tax rates
- relatively **limited options of the government**
 - insufficient LF in public sector
 - G relatively low
- **monetary policy** of certain countries **inconvenient**

Economic development after the crisis

1. In general
2. GB
3. FR
4. USA

U as % of LF in 1929-1938

Countries	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Germany	5,9	9,5	13,9	17,2	14,8	8,3	6,5	4,8	2,7	1,3
Italy	1,7	2,5	4,3	5,8	5,9	5,6	-	-	5,0	4,6
GB	7,2	11,1	14,8	15,3	13,9	11,7	10,8	9,2	7,7	9,2

Level of industrialisation p.c., 1880 - 1938 (GB in 1900=100)

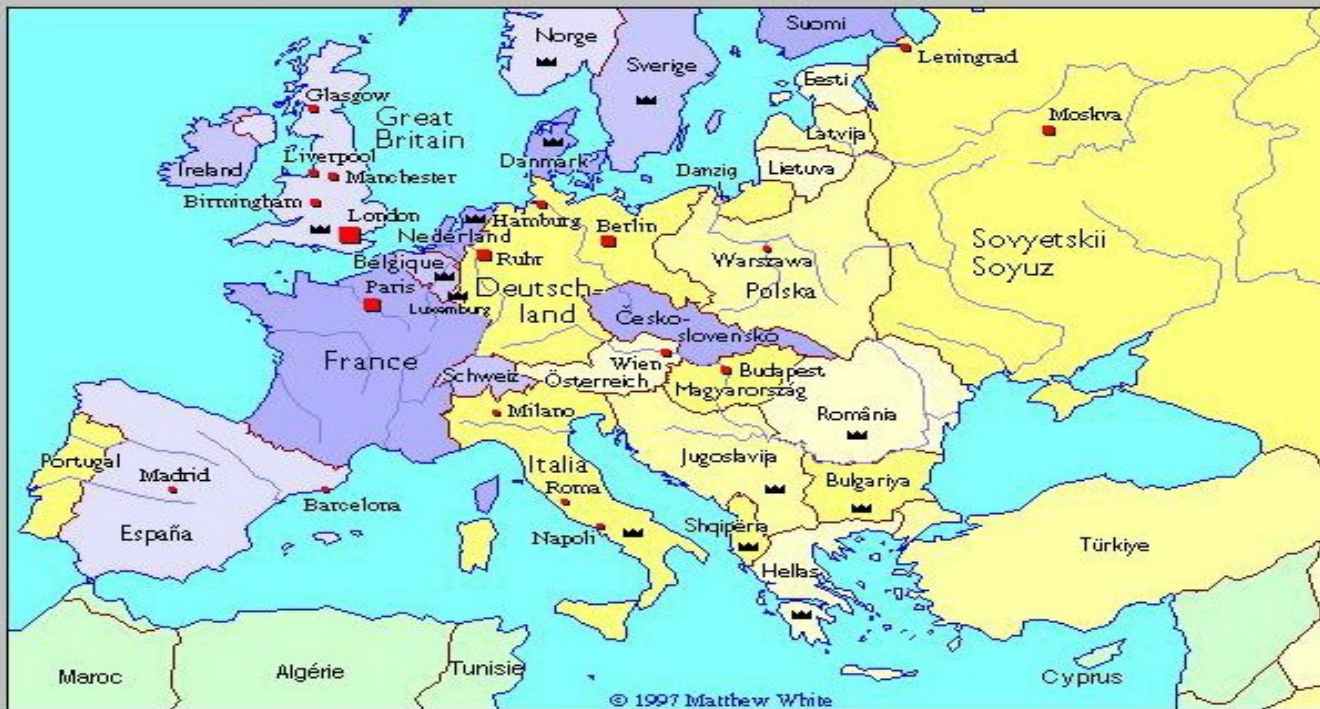
	1880	1900	1913	1928	1938	ranking
1 Great Britain	87	100	115	122	157	2
2 USA	38	69	126	182	167	1
3 France	28	39	59	82	73	4
4 Germany	25	52	85	128	144	3
5 Austria-Hungary	15	23	32	-	-	
6 Italy	12	17	26	44	61	5
7 Russia	10	15	20	20	38	7
8 Japan	9	12	20	30	51	6

Overall industrial potential, 1900 - 1938

(GB in 1900 = 100)

Countries	1900	1913	1928	1938
Great Britain	100	127.2	135	181
USA	127.8	298.1	533	528
Germany	71.2	137.7	158	214
France	36.8	57.3	82	74
Russia	47.5	76.6	72	152
Austria-Hungary	25.6	40.7	-	-
Italy	13.6	22.5	37	46
Japan	13	25.1	45	88

Europe in 1937



- Authoritarian Governments
- Democratic Governments
- Colonies
- Monarchies
- City with over 1 million inhabitants

B2. Great Britain

- **EP very orthodox – balanced budgets**

- no massive program of community service
- no \uparrow interventions
- devaluation \Rightarrow no big \uparrow EX (devaluation of other currencies)
- protection of domestic market – relatively low
- policy of cheap money - $\downarrow r$

- **after 1932 - econ. growth**

- BUT uneven development
 - \downarrow textile, ships X \uparrow automobiles, chemicals, electricity, construction of railways + construction
- persisting structural U

- **Ottawa Agreements (1932) = system of Imperial Preference**
 - free trade within the British Empire
 - unified tariffs against third countries
 - effort – raw materials to GB and manufactures from GB X own industry...

B3. France

- ↓ **later and weaker**
- **in 1920s**: strong growth + BofP surplus + huge reserves
 - ⇒ strong econ. ⇒ ability to keep the gold standard
 - concern about Π
- **econ. policy**
 - devaluation in the world ⇒ need of ↓ price level ⇒ high r
 - ↓ G + ↑ protection of domestic market
- ↓ prices ⇒ ↓ wages ⇒ ↓ **AD**
- high r + ↓ prices ⇒ ↓ **INV**
- until 1936 ↓ **production and U**
- **1936 new government** - like a small New Deal
 - expansion + gold standard abandoned+ devaluation + limited program of community service+ ↑ wages and ↓ working hours

B4. USA

- 1933 **FDR elected** for promises to get the country out of the crisis
 - public investments
- **large amount of acts** already in the first 100 days of its presidency
- **foreign policy**
 - isolationism
 - ban on loans to countries with unsettled military loans (1934)
 - 1935 - military embargo
 - 1934 - Reciprocal Trade Agreements Act – possibility to negotiate bilateral tariff reductions
 - not too successful (although some agreements concluded)

New Deal

- **not coherent** – e.g. demand of \uparrow wages + \downarrow U
 - finding the way = trial-and-error method
- promise of **balanced state budget**
 - during the government – continuous deficit
- X \downarrow **real wages**
- \uparrow **G** \Rightarrow share of gov. on GDP
- **intensive state interventions** under the form of laws such as AAA and NIRA
 - planning, regulation of competition, distribution of markets,, price and production directives, minimal wage, maximal working hours, etc.
 - declared unconstitutional
 - with AAA a small remark to congress about the end of convertibility of \$ for AU (1933)
 - \Rightarrow congress forced to accept both
- after inauguration – 4 weeks of bank holiday + law designed to **help banking system** \Rightarrow \uparrow confidence \Rightarrow deposits > withdrawals

The USA federal income and expenditures, 1929 - 1939

Fiscal year	Expenditures in USD billion	Income in USD billion	Surplus/ deficit	GNP in USD billion	Expenditures as % of GNP	Income as % of GNP
1929	3.3	4	+0.7	104	3.2	3.9
1930	3.4	4.2	+0.7	91	3.8	4.6
1931	3.6	3.1	-0.5	76	4.7	4.1
1932	4.7	1.9	-2.7	59	8.0	3.3
1933	4.6	2.0	-2.6	56	8.3	3.6
1934	6.7	3.1	-3.6	65	10.3	4.7
1935	6.5	3.7	-2.8	73	9.0	5.1
1936	8.5	4.1	-4.4	83	10.0	4.9
1937	7.8	5.0	-2.8	91	8.5	5.5
1938	6.8	5.6	-1.2	85	8.0	6.6
1939	8.9	5.0	-3.9	91	9.7	5.5

- **New Deal as turning point-** ↑ role of government in national economy
- **BUT questionable outcomes + inconsistent goals**
 - slow recovery
- **pre-crisis level** reached in 1937
 - BUT immediately other (weaker) crises
- Prior to WWII large **unutilised capacities**
 - in industry
 - U (1939 = 10 mil)

Share in international industrial production, 1929 - 1938 (in %)

Countries	1929	1932	1937	1938
USA	43.3	31.8	35.1	28.7
USSR	5	11.5	14.1	17.6
Germany	11.1	10.6	11.4	13.2
GB	9.4	10.9	9.4	9.2
France	6.6	6.9	4.5	4.5
Japan	2.5	3.5	3.5	3.8
Italy	3.3	3.1	2.7	2.9

Germany in 1930s

1. Economic situation
2. Economic policy
3. Prices and wages

C1. Germany in 1930s

- **1920s** instability + ↑ indebtedness + since 1928 restrictions on for. INV ⇒ ↓G, private INV and EX
- gold standard abandoned + ↑U ⇒ radicalization
- **1931** monetary and simultaneous banking crisis - practically insolvable
- **1932**
 - industrial production 50% of pre-war level + only 8,9% world 1928 = 14,6%
 - agriculture 31%
 - EX↓ by 60% = 50% before WW
- as **causes** considered
 - reparation
 - Treaty of Versailles + inner enemy

- **1930 elections** = ↑ national socialistic parties
 - program = nationalism, racism, chauvinism + demagogy
 - voters = workers + poor middle classes
- **1932 elections** - NSDAP winner ⇒ 30. 1. 1933 president Hindenburg appointed Hitler the Chancellor
- **expansionistic plans**
 - in the autumn 1933 DE withdrew from the Disarmament Conference + parted from the League of Nations
 - 1935 introduction of compulsory military service **X** System of Versailles

NSDAP election results in Parliamentary Elections

Date of elections	%	Number of seats
May 1924	6.6	32
December 1924	3	14
May 1928	2.6	12
September 1930	18.3	107
July 1932	37.3	230
November 1932	33.1	196
March 1933	43.9	368

- Goal - territorial changes
 - concentration of German people into one state + acquisition of 'living space in the east'
- Anschluss of AT in March 1938
- Munich Conference and occupation of Czechoslovakia
- Sept. 1939 invasion of Poland = WWII

C2. Economic policy

- **rapid recovery**

- ↓ U 1932 by 44% ⇒ 1934 = 14,1% (1932 6 mil ⇒ July 1933 below 5 mil ⇒ 1936 only 1 mil.)

- fiscal expansion

- community service ⇒ ↑ role of state in the economy
- release of deflationary policy

- positive expectations

- ↑ production 1929/37 by more than 1/3

- rapid recovery ⇒ favourable for the position of the Nazis

- after 1936 military economy

- big ↑ military expenditures

Level of industrialisation p.c., 1880 - 1938 (GB in 1900=100)

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2 USA	38	69	126	182	167	1
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Ownership

- **no large scale nationalisation** X CPE
- during the whole period – **existence of private ownership** BUT limited
 - the owner did not decide the production (what to produce) and customers + restrictions on the use of resources

Planning

- **4-year plans**
- **1933/36**
 - program of community services = building of motorways, canals, modernization of railways
 - private firms under state supervision
 - state control of banking system, production and distribution of resources
 - limited mobility of workers in agriculture and industry
- **1937/1941 preparation to the war** ⇒ armament, raw materials, food

Economic regulation

- forced creation of **cartels**
 - obligatory membership
 - decisions about prices, wages, FT and production
- **INV decisions** at the central level \Rightarrow \uparrow share of INV a \downarrow C

C3. Prices and wages

- **freeze of prices and wages in 1936** (until 1948)
 - prohibition of strikes and collective wage negotiations
 - prohibition of trade unions (1933)
 - mandatory membership in the German Labour Front
 - restrictions on wages $\Rightarrow \uparrow E \Rightarrow$ **labour shortage**
- freezing of \uparrow prices \Rightarrow **D > S**
 - suppressed $\Pi \Rightarrow$ households with cash \Rightarrow to purchase anything regardless the quality

- **rationing economy**

- for manufacturing (raw materials)
- for personal use

- **efforts of self-reliance (autarchy)**

- regulation of foreign trade – control of EX and IM
- East Europe – barter trade = German manufactures for food and raw materials

Military expenditures 1929/32 – 1938 as % of GNP

	Germany	Italy	France	UK	USA	USSR	Japan
1929/32	0.9	3.7	3.8	2	0.9	3.4	2.5
1933	3.2	5.5	4	2.1	1	4.1	1.6
1934	4.4	6.8	6.3	3.9	1.2	18.3	2.4
1935	8.9	7.3	7.4	5.1	1.1	26.5	2.3
1936	11.4	15.7	8.2	7.1	1.1	-	2.1
1937	14.4	16.1	7.1	9.4	1.1	13.7	5.2
1938	28.2	9.2	7.2	12.8	1.3	19.7	9.8

National income (in USD billion) and a share of defence expenditures in 1937

Countries	National income	% of defence expenditures	USD billion
USA	68	1.5	1.0
British Empire	22	5.7	1.3
France	10	9.1	0.9
Germany	17	23.5	4.0
Italy	6	14.5	0.9
USSR	19	26.4	5.0
Japan	4	28.2	1.1