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978-1-316-50371-3 — History for the IB Diploma Paper 3 The Great Depression and the Americas (mid 1920s–1939)
Mike Wells , Nick Fellows
Excerpt
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Causes of the Great Depression in the Americas

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The Great Depression and the Americas (mid 1920s–1939)

Introduction

This chapter deals with the long- and short-term causes of the Great Depression in the Americas. It makes a distinction between the collapse of the US stock market in October 1929 and the Great Depression, which had its roots in longer-term economic factors. The economic importance of the US grew after the First World War. Debate about whether the US government and the regulatory bodies were to blame centres on different views of the role of the state in economic matters.

TIMELINE

1918 **11 Nov:** First World War ends

1919 **March:** Treaty of Versailles, Paris; problems with international trade and payments following the peace treaties that ended the First World War; wartime economic boom ends

1920 **Nov:** Harding elected President

1922 **Sept:** Fordney-McCumber Tariff; US trade policies restrict world trade

1923 **Aug:** Harding dies; Coolidge becomes president

May: Start of decline of Brazilian cotton prices

1924 **Nov:** Coolidge wins election

1925 **Jan:** Beginning of collapse of postwar boom in Florida real estate

June: Beginning of long-term fall in price of Canadian wheat

1928 **Nov:** Hoover wins presidential election

1929 **May:** Canada faces drought

24–29 Oct: Wall Street Crash

1930 Drought in Mississippi Valley

June: Hawley–Smoot Tariff

1931 **Dec:** Announcement of Public Works Administration (PWA)

1932 **Nov:** Roosevelt wins presidential election

KEY QUESTIONS

- What were the political and economic causes of the Great Depression in the US?
- What was the Wall Street Crash and why was it so important?
- Who was most responsible for the Great Depression?
- What were the political and economic causes of the Great Depression in Latin America?
- What were the political and economic causes of the Great Depression in Canada?

Overview

- The development of the US economy in the 19th century and the growth of world markets led to greater prosperity for many in the Americas in the initial years of the 20th century.
- By the 1920s, some areas of the US economy and country grew rapidly, while others did not. The agricultural sector experienced low prices and the industrial sector was in danger of producing too much. There was also considerable inequality in incomes.
- Though there were different social and political circumstances in the Americas, there were certain common features in the development of the world economy after 1870 that left the region's economy vulnerable.
- The huge growth of the US economy made Canada and Latin America over-reliant on sales to the US.
- Although the Republican governments of the 1920s believed in economic freedom ('laissez-faire'), the US Congress passed a law increasing tariffs (customs duties) on imported goods. There has been considerable criticism of US government policies for helping to bring about financial crisis and then failing to deal with it.

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- There was considerable growth in investments in the 1920s. Many made their fortune; yet the financial regulation was insufficient to prevent the problems that led to the 1929 stock market crash.
- The collapse of the US stock market in 1929 triggered a worldwide economic depression that had longer-term causes. The regional dominance of the US meant it hit the Americas particularly hard.
- The Canadian economy suffered from imbalance, overdependence on exports to the US and too much unregulated credit and investment in the 1920s which made it vulnerable to the effects of the American collapse.
- Latin American economies had become over-reliant on a limited range of primary exports. Falling prices had caused hardship in the 1920s and the reduction of US sales also hit their economies hard.

Figure 2.1: The United States of America, which is made up of 50 individual states.

2.1 What were the political and economic causes of the Great Depression in the US?

The boom years of the 1920s

After 1921, the US experienced high levels of economic growth characterised by:

- the rapid expansion of the automobile industry and industries that supplied parts for cars
- a growth in housing, which included the development of suburbs
- a range of new consumer goods and electrical items
- an increase in services and the financial sector.

The signs of prosperity were obvious. Statistics show one of the most impressive increases in production. Gross national product (GNP) growth during the 1920s was relatively rapid, at 4.2% a year from 1920 to 1929 (*Historical Statistics of the United States*, or *HSUS*, 1976).

GNP per capita grew 2.7% per year between 1920 and 1929. The problem was that because of the weakening of trade union influence and companies' focus on making a profit, the real wages of most workers did not increase in line with the rise in economic activity. There was more money to be made from land speculation than farming or mining, and there was increased speculation on the stock market.

ACTIVITY

What evidence from Source 2.1 would you use to show that workers' wages did not rise very much in the 1920s even though there was greater economic activity? Discuss with a partner how this might have affected the economy, for example the amount of money people had to spend on products made in the US.

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SOURCE 2.1

Average weekly or daily earnings for selected occupations, 1920–30:

Year	1. Weekly: skilled and semi-skilled male production workers*	2. Weekly: unskilled male production workers*	3. Weekly: female production workers*	4. Weekly: bituminous coal-lignite mining	5. Daily: farm workers
1920	29.16	22.28	15.14	—	2.82
1921	26.19	19.41	14.96	—	1.96
1922	28.73	20.74	16.19	—	2.04
1923	30.93	22.37	17.31	25.51	2.36
1924	30.61	22.45	16.78	23.47	2.40
1925	30.57	22.41	16.78	25.64	2.30
1926	30.60	22.47	16.72	27.51	2.32
1927	31.09	23.22	17.14	23.85	2.32
1928	31.94	23.89	17.15	24.46	2.30
1929	32.60	24.40	17.61	25.11	2.30
1930	29.93	22.47	16.40	22.61	2.21

*(workers in 25 manufacturing industries)

Source: US Department of Commerce, Bureau of the Census. 1976. Historical Statistics of the United States: Colonial Times to 1970. *Washington DC, US. USGPO.*

How important was the stock market crash of 1929?

After a period of great speculation (buying, holding or selling stocks or shares) on the US stock market, in which millions of dollars were invested in shares, there was a sudden loss of confidence. In October 1929, investors started selling, not buying, and share values fell dramatically. Millions of dollars were lost in this 'Great Crash'. After the crash – and some say because of it – there was a long period of economic depression in the US. Millions were unemployed, businesses collapsed and many banks were unable to give depositors their money. The Depression also affected Canada and Latin American countries, making the 1930s a time of considerable hardship and change. The Great Depression was experienced as the world's worst economic disaster and has kept that reputation.

ACTIVITY

Look again at the key economic terms in Chapter 1. Then write out a definition of the following terms in your own words:

- inflation
- Gold Standard
- exchange rate
- primary producer.

Figure 2.2: A still from John Ford's 1940 film of *The Grapes of Wrath*, based on John Steinbeck's novel. The film follows a family of 'Oakies' – Oklahoma farmers hit by the dry weather that created a dust bowl that forced them to leave their homes. The actor Henry Fonda (right) became a symbol of decent Americans hit by the Great Depression.

Explanations of the Great Depression in the US

In 1929, the US capitalist system was close to collapse. To many, this economic system was essential to progress and civilisation. The collapse of the US economy was experienced as such a major upheaval that commentators continue to analyse and discuss the causes of the Depression today.

By and large, the causes of the Depression fall into several broad categories, as described below.

The role of the global economy

The expansion of the global economy in the later 19th century, with developments in transport, technology and credit (see Terminology and definitions in Chapter 1), meant that the world was more united by economic activity. This left individual nations more vulnerable to international events beyond their control. For example, the First World War had a devastating long-term impact on international trade and payments – as president Herbert Hoover was quick to point out when defending the USA's role in the financial crisis.

The role of US Republican governments

In the United States in the 1920s, there was minimal government interference in economic activity, since it was believed this would enable individuals to prosper. This laissez-faire approach (literally 'leave alone') was based on the belief in the self-regulating nature of markets and a deep opposition to government interference in key sectors (especially finance). In addition, there was a commitment to tariff policies that limited trade.

The Republican presidents of the 1920s (Warren G. Harding, Calvin Coolidge and Herbert Hoover), as well as their ministers and financial experts, were widely blamed for the Great Depression at the time. They continue to receive a great deal of criticism today.

The role of US investors

The actions of US investors are also seen as a major factor in bringing about the Great Depression. The 'boom years' of the 1920s encouraged investors to be greedy and seek 'quick' profits through irresponsible

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investment. Too often, investment was not in reputable companies but was carried out as a sort of 'stock market game'.

It can be argued that these unsafe investment practices caused the stock market crash and contributed to the Depression. At the time, cautious rural Americans often blamed reckless urban dwellers for the economic disaster, even if it could be argued that US governments were ultimately responsible for regulating the financial system.

The nature of the capitalist system

To some extent, the nature of the capitalist system – with its cycle of growth ('boom') followed by loss and stagnation ('bust') – was to blame. The countries that shared in this economic system were dependent on each other for their successes. This meant that the primary producers (the countries selling agricultural products to the US), particularly Latin American countries, were drawn into the economic disaster when the Depression began in the US. In turn, as the Latin American demand for US goods dried up, the economic decline became worse.

The alternatives to the capitalist system were socialist or communist systems, which are both based on a critique of capitalism by Karl Marx (see Chapter 1). Marx envisaged workers sharing in the profits of industry, which would be owned and run by the community, according to their needs. Socialists believed in public ownership, not the dictatorship established in the USSR by Stalin, which was unaffected by the Great Depression. After the Bolshevik revolution in Russia in 1917, communists established control over the economy in the name of the working classes and ended the parliamentary democracy briefly established by the February–March Revolution. Both socialist and communist systems won more support worldwide after 1929.

The long-term causes of the Depression

Overproduction

A common view was that modern agricultural methods since the 19th century had led to agricultural overproduction in the US.

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SOURCE 2.2

We still pray to be given each day our daily bread. Yet there is too much bread, too much wheat and corn, meat and oil and almost every other commodity required by man for his subsistence and material happiness. We are not able to purchase the abundance that modern methods of agriculture, mining and manufacturing make available in such bountiful quantities.

From an article in the US magazine Current History*, 1932.*

The 'modern methods' referred to in the article in Source 2.2 go back well into the previous century. The crisis of overproduction is viewed, in the long term, as having been caused by the opening of the prairies in the US and the greater exploitation of natural resources worldwide. Other commentators made a similar point about overproduction of all sorts of goods, both industrial and agricultural.

Figure 2.3: Farmers test the latest farming machinery introduced to work their land in Texas.