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Introduction to POLITICAL ECONOMY

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Subject: “The Great Depression”

Summary:

I.	Introducing the topic	-----	2
II.	What are the causes of the Great Depression?	-----	3
III.	What is the impact of the Great Depression?	-----	4
IV.	Conclusion	-----	5

I. Introduction

First, what is the Great Depression?

Also known as the “economic crisis of 1929”, it was probably the greatest economic depression that ever existed.

It started after the powerful expansion of the United States in the 1920s. A consumer society was established to cope with the overproduction of many products, including automobiles and agriculture.

Not being able to sell their products, many companies produce more and more in the hope of making up for their losses. In order to increase their profits, they slow down the wages and therefore the purchasing power of the employees.

To avoid sinking, companies start borrowing massively from banks.

In addition, thinking that they can profit from speculation, individuals also start to ask for credits in order to invest quickly in the stock market.

This is how America entered a vicious circle.

Seeing their investments losing value continuously, the population tries to get rid of their shares, before they are worthless.

on Thursday, October 24, 1929, no one wanted to buy anymore; 13 million shares were sold. the banks went bankrupt and the unemployment rate rose to more than 20%.

II. The causes of the Great Depression

Let's take a closer look at the causes of this event;

First of all, the agricultural crisis: during the first world war, the United States increased their agricultural production in order to export to Europe where there was a shortage. In order to produce more, the farmers went into debt by buying land and machinery.

once world peace returned, Europe resumed its production and the agricultural growth of the united states was stopped dead in its tracks.

overproduction sets in and prices fall drastically. going bankrupt, farmers migrate to the cities where they will become a new competition for industrial workers.

with no more orders for new agricultural infrastructure, machinery, and various products, some companies are in turn in difficulty.

The first world war also forced the united states to rapidly develop its industry: in particular production of metals, energy, weapons, electrical equipment...

New working methods were introduced, such as assembly line work and Taylorism, which also greatly accelerated the efficiency of production. In order to succeed in such a short period of time, companies borrowed heavily from banks. This modernization limited the need for manpower: hiring and the level of remuneration were curbed.

Again, thanks to the war, American banks have become much richer and have substantial capital at their disposal. Moreover, they intend to increase this capital still further thanks to credits and speculation on the stock market. the total value of shares has doubled in less than five years. On the other hand, the real value of companies and of what they produce has made little progress, and this progress is constantly slowing. However, share purchases do not cease, speculators hoping to see their price rise at some point.

On the verge of bankruptcy and unable to return deposited funds, American banks are desperately trying not to collapse by repatriating capital invested in Europe.

As this capital cannot be available instantly, banks all over the world are gradually finding themselves deprived of funds, taking with themselves the companies that do not have the necessary resources to survive immediately.

III. The consequences of the Great Depression

The recession began in the United States in 1930. Industrial production was halved in two years. At the same time, the unemployment rate rose from 3% to more than 20%. In 1933, nearly half of the American working population was unemployed.

But it was in the countryside that the situation was most extreme. To escape the misery, the rural population criss-crossed the country in search of odd jobs, whatever they might be.

The situation extends abroad, as most states are dependent on the American economy. Only the USSR escaped the crisis thanks to its independent communist policy.

In France, purchasing power has also fallen. Because of the poor tax revenues, the government is cutting spending. The number of civil servants and their salaries is reduced. They are trying to make up for this shortfall by keeping credit rates high, handicapping production. Unemployment also exploded: from 12,000 unemployed in 1930 to 175,000 six years later.

Germany was hit hard by the social crisis; Hitler and the Nazi party came to power by promising to raise the country. Hitler quickly reduced unemployment by ordering the rapid, massive and illegal rearmament of the country. He also introduced severe economic restrictions on the purchasing power of the population. This expansionist policy caused tensions, which were largely responsible for the outbreak of the Second World War.

More generally, states rely on exports by offering attractive prices to foreign buyers, by practicing dumping... but also close their borders to imports. Customs duties are exploding. Here too, the situation is blocked. Leaders are trying as best they can to prevent the decline of their countries by adopting a very protectionist policy.

Deprived of jobs and therefore of money, the population falls into misery. The slums proliferate.

As early as 1933, stimulus plans were introduced, notably the famous "New Deal" proposed by President Roosevelt, who had just come to power. There was a twofold objective: to boost consumption of products, but also to reform the system, which had proved to be far too fragile. American liberal capitalism disappeared little by little in favor of what is called "state interventionism". However, the growing tensions between the different world forces did not favor the reconstruction of the global economy... the Second World War was approaching. It will be necessary to wait for the end of this one to glimpse again a sustainable growth.

IV. Personal Conclusion

The second industrial revolution and precipitous economic growth have shown that they can lead to disastrous consequences at any time. It also proved that states were willing to sacrifice the economies and jobs of their neighbors to save their own skins, sometimes at the cost of what might look like a "cold war". In the 21st century, we are in an even more globalized world... we can ask ourselves how catastrophic it would be if something like this happened again. The coronavirus seems to be destined to put the subject back on the table. Fortunately, specialized organisms have been created as a preventive measure, such as the International Monetary Fund (IMF) or the central banks, the World Bank... these institutions should make it possible to contain possible tensions if a new important economic crisis were to occur in the future.

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