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A Worldwide Depression

MAIN IDEA

ECONOMICS An economic depression in the United States spread throughout the world and lasted for a decade.

WHY IT MATTERS NOW

Many social and economic programs introduced worldwide to combat the Great Depression are still operating.

TERMS & NAMES

- coalition government
- Weimar Republic
- Great Depression
- Franklin D. Roosevelt
- New Deal

SETTING THE STAGE By the late 1920s, European nations were rebuilding war-torn economies. They were aided by loans from the more prosperous United States. Only the United States and Japan came out of the war in better financial shape than before. In the United States, Americans seemed confident that the country would continue on the road to even greater economic prosperity. One sign of this was the booming stock market. Yet the American economy had serious weaknesses that were soon to bring about the most severe economic downturn the world had yet known.

TAKING NOTES

Recognizing Effects
Use a diagram to show the effects of the Great Depression in the United States.



Postwar Europe

In both human suffering and economic terms, the cost of World War I was immense. The Great War left every major European country nearly bankrupt. In addition, Europe's domination in world affairs declined after the war.

Unstable New Democracies War's end saw the sudden rise of new democracies. From 1914 to 1918, Europe's last absolute rulers had been overthrown. The first of the new governments was formed in Russia in 1917. The Provisional Government, as it was called, hoped to establish constitutional and democratic rule. However, within months it had fallen to a Communist dictatorship. Even so, for the first time, most European nations had democratic governments.

Many citizens of the new democracies had little experience with representative government. For generations, kings and emperors had ruled Germany and the new nations formed from Austria-Hungary. Even in France and Italy, whose parliaments had existed before World War I, the large number of political parties made effective government difficult. Some countries had a dozen or more political groups. In these countries, it was almost impossible for one party to win enough support to govern effectively. When no single party won a majority, a **coalition government**, or temporary alliance of several parties, was needed to form a parliamentary majority. Because the parties disagreed on so many policies, coalitions seldom lasted very long.

Frequent changes in government made it hard for democratic countries to develop strong leadership and move toward long-term goals. The weaknesses of a coalition government became a major problem in times of crisis. Voters in several countries were then willing to sacrifice democratic government for strong, authoritarian leadership.

The Weimar Republic

Germany's new democratic government was set up in 1919. Known as the **Weimar** (WY•MAHR) **Republic**, it was named after the city where the national assembly met. The Weimar Republic had serious weaknesses from the start. First, Germany lacked a strong democratic tradition. Furthermore, postwar Germany had several major political parties and many minor ones. Worst of all, millions of Germans blamed the Weimar government, not their wartime leaders, for the country's defeat and postwar humiliation caused by the Versailles Treaty. **A**

MAIN IDEA

Identifying Problems

A What political problems did the Weimar Republic face?

Inflation Causes Crisis in Germany Germany also faced enormous economic problems that had begun during the war. Unlike Britain and France, Germany had not greatly increased its wartime taxes. To pay the expenses of the war, the Germans had simply printed money. After Germany's defeat, this paper money steadily lost its value. Burdened with heavy reparations payments to the Allies and with other economic problems, Germany printed even more money. As a result, the value of the mark, as Germany's currency was called, fell sharply. Severe inflation set in. Germans needed more and more money to buy even the most basic goods. For example, in Berlin a loaf of bread cost less than a mark in 1918, more than 160 marks in 1922, and some 200 billion marks by late 1923. People took wheelbarrows full of money to buy food. As a result, many Germans questioned the value of their new democratic government.

Attempts at Economic Stability

Germany recovered from the 1923 inflation thanks largely to the work of an international committee. The committee was headed by Charles Dawes, an American banker. The Dawes Plan provided for a \$200 million loan from American banks to stabilize German currency and strengthen its economy. The plan also set a more realistic schedule for Germany's reparations payments.

Put into effect in 1924, the Dawes Plan helped slow inflation. As the German economy began to recover, it attracted more loans and investments from the United States. By 1929, German factories were producing as much as they had before the war.

Efforts at a Lasting Peace

As prosperity returned, Germany's foreign minister, Gustav Stresemann (STRAY•zuh•MAHN), and France's foreign minister, Aristide Briand (bree•AHND), tried to improve relations between their countries. In 1925, the two ministers met in Locarno, Switzerland, with officials from Belgium, Italy, and Britain. They signed a treaty promising that France and Germany would never

▼ German children use stacks of money as building blocks during the 1923 inflation.



again make war against each other. Germany also agreed to respect the existing borders of France and Belgium. It then was admitted to the League of Nations.

In 1928, the hopes raised by the “spirit of Locarno” led to the Kellogg-Briand peace pact. Frank Kellogg, the U.S. Secretary of State, arranged this agreement with France’s Briand. Almost every country in the world, including the Soviet Union, signed. They pledged “to renounce war as an instrument of national policy.”

Unfortunately, the treaty had no means to enforce its provisions. The League of Nations, the obvious choice as enforcer, had no armed forces. The refusal of the United States to join the League also weakened it. Nonetheless, the peace agreements seemed a good start.

Financial Collapse

In the late 1920s, American economic prosperity largely sustained the world economy. If the U.S. economy weakened, the whole world’s economic system might collapse. In 1929, it did.

A Flawed U.S. Economy Despite prosperity, several weaknesses in the U.S. economy caused serious problems. These included uneven distribution of wealth, overproduction by business and agriculture, and the fact that many Americans were buying less.

By 1929, American factories were turning out nearly half of the world’s industrial goods. The rising productivity led to enormous profits. However, this new wealth was not evenly distributed. The richest 5 percent of the population received 33 percent of all personal income in 1929. Yet 60 percent of all American families earned less than \$2,000 a year. Thus, most families were too poor to buy the goods being produced. Unable to sell all their goods, store owners eventually cut back their orders from factories. Factories in turn reduced production and laid off workers. A downward economic spiral began. As more workers lost their jobs, families bought even fewer goods. In turn, factories made further cuts in production and laid off more workers.

During the 1920s, overproduction affected American farmers as well. Scientific farming methods and new farm machinery had dramatically increased crop yields. American farmers were producing more food. Meanwhile, they faced new competition from farmers in Australia, Latin America, and Europe. As a result, a worldwide surplus of agricultural products drove prices and profits down.

Unable to sell their crops at a profit, many farmers could not pay off the bank loans that kept them in business. Their unpaid debts weakened banks and forced some to close. The danger signs of overproduction by factories and farms should have warned people against gambling on the stock market. Yet no one heeded the warning. **B**

The Stock Market Crashes In 1929, New York City’s Wall Street was the financial capital of the world. Banks and investment companies lined its sidewalks. At Wall Street’s New York Stock Exchange, optimism about the booming U.S. economy showed in soaring prices for stocks. To get in on the boom, many middle-income people began buying

History *in* Depth

Investing in Stocks

Stocks are shares of ownership in a company. Businesses get money to operate by selling “shares” of stock to investors, or buyers. Companies pay interest on the invested money in the form of dividends to the shareholders. Dividends rise or fall depending on a company’s profits.

Investors do not buy stocks directly from the company; instead, stockbrokers transact the business of buying and selling.

Investors hope to make more money on stocks than if they put their money elsewhere, such as in a savings account with a fixed rate of interest. However, if the stock price goes down, investors lose money when they sell their stock at a lower price than when they bought it.

Stock Prices, 1925–1933



Source: *Historical Statistics of the United States*

MAIN IDEA

Identifying Problems

B What major weaknesses had appeared in the American economy by 1929?

Social History

Life in the Depression

During the Great Depression of 1929 to 1939, millions of people worldwide lost their jobs or their farms. At first the unemployed had to depend on the charity of others for food, clothing, and shelter. Many, like the men in this photo taken in New York City, made their home in makeshift shacks. Local governments and charities opened soup kitchens to provide free food. There were long lines of applicants for what work was available, and these jobs usually paid low wages.

INTEGRATED TECHNOLOGY

INTERNET ACTIVITY Create a photo-essay on the Great Depression in the United States. Go to classzone.com for your research.



stocks on margin. This meant that they paid a small percentage of a stock's price as a down payment and borrowed the rest from a stockbroker. The system worked well as long as stock prices were rising. However, if they fell, investors had no money to pay off the loan.

In September 1929, some investors began to think that stock prices were unnaturally high. They started selling their stocks, believing the prices would soon go down. By Thursday, October 24, the gradual lowering of stock prices had become an all-out slide downward. A panic resulted. Everyone wanted to sell stocks, and no one wanted to buy. Prices plunged to a new low on Tuesday, October 29. A record 16 million stocks were sold. Then the market collapsed.

The Great Depression

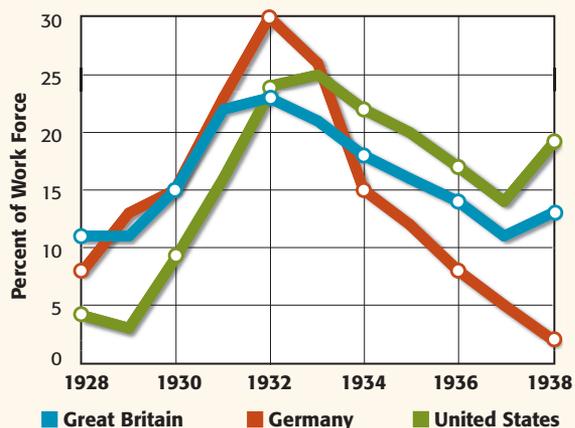
People could not pay the money they owed on margin purchases. Stocks they had bought at high prices were now worthless. Within months of the crash, unemployment rates began to rise as industrial production, prices, and wages declined. A long business slump, which would come to be called the **Great Depression**, followed. The stock market crash alone did not cause the Great Depression, but it quickened the collapse of the economy and made the Depression more difficult. By 1932, factory production had been cut in half. Thousands of businesses failed, and banks closed. Around 9 million people lost the money in their savings accounts when banks had no money to pay them. Many farmers lost their lands when they could not make mortgage payments. By 1933, one-fourth of all American workers had no jobs.

A Global Depression The collapse of the American economy sent shock waves around the world. Worried American bankers demanded repayment of their overseas loans, and American investors withdrew their money from Europe. The American market for European goods dropped sharply as the U.S. Congress placed high tariffs on imported goods so that American dollars would stay in the United States and pay for American goods. This policy backfired. Conditions worsened for the United

Vocabulary

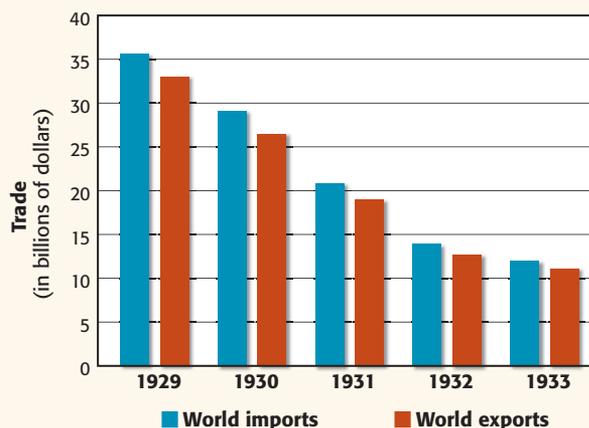
tariffs: taxes charged by a government on imported or exported goods

Unemployment Rate, 1928–1938



Sources: *European Historical Statistics: 1750–1970*;
Historical Statistics of the United States: Colonial Times to 1970.

World Trade, 1929–1933



Source: Kenneth Oye, *Economic Discrimination and Political Exchange*

SKILLBUILDER: Interpreting Graphs

- Comparing** What nation had the highest rate of unemployment? How high did it reach?
- Clarifying** Between 1929 and 1933, how much did world exports drop? What about world imports?

States. Many countries that depended on exporting goods to the United States also suffered. Moreover, when the United States raised tariffs, it set off a chain reaction. Other nations imposed their own higher tariffs. World trade dropped by 65 percent. This contributed further to the economic downturn. Unemployment rates soared.

Effects Throughout the World Because of war debts and dependence on American loans and investments, Germany and Austria were particularly hard hit. In 1931, Austria's largest bank failed. In Asia, both farmers and urban workers suffered as the value of exports fell by half between 1929 and 1931. The crash was felt heavily in Latin America as well. As European and U.S. demand for such Latin American products as sugar, beef, and copper dropped, prices collapsed.

The World Confronts the Crisis

The Depression confronted democracies with a serious challenge to their economic and political systems. Each country met the crisis in its own way.

Britain Takes Steps to Improve Its Economy The Depression hit Britain severely. To meet the emergency, British voters elected a multiparty coalition known as the National Government. It passed high protective tariffs, increased taxes, and regulated the currency. It also lowered interest rates to encourage industrial growth. These measures brought about a slow but steady recovery. By 1937, unemployment had been cut in half, and production had risen above 1929 levels. Britain avoided political extremes and preserved democracy.

France Responds to Economic Crisis Unlike Britain, France had a more self-sufficient economy. In 1930, it was still heavily agricultural and less dependent on foreign trade. Nevertheless, by 1935, one million French workers were unemployed.

The economic crisis contributed to political instability. In 1933, five coalition governments formed and fell. Many political leaders were frightened by the growth of antidemocratic forces both in France and in other parts of Europe. So in 1936, moderates, Socialists, and Communists formed a coalition. The Popular Front, as it was called, passed a series of reforms to help the workers. Unfortunately, price increases quickly offset wage gains. Unemployment remained high. Yet France also preserved democratic government.

Socialist Governments Find Solutions The Socialist governments in the Scandinavian countries of Denmark, Sweden, and Norway also met the challenge of economic crisis successfully. They built their recovery programs on an existing tradition of cooperative community action. In Sweden, the government sponsored massive public works projects that kept people employed and producing. All the Scandinavian countries raised pensions for the elderly and increased unemployment insurance, subsidies for housing, and other welfare benefits. To pay for these benefits, the governments taxed all citizens. Democracy remained intact.

Recovery in the United States In 1932, in the first presidential election after the Depression had begun, U.S. voters elected **Franklin D. Roosevelt**. His confident manner appealed to millions of Americans who felt bewildered by the Depression. On March 4, 1933, the new president sought to restore Americans' faith in their nation.



▲ Stricken with polio in 1921, Roosevelt vowed he would not allow bodily disability to defeat his will.

MAIN IDEA

Analyzing Primary Sources

C What effect do you think Roosevelt's speech had on the American people?

PRIMARY SOURCE **C**

This great Nation will endure as it has endured, will revive and will prosper. . . . let me assert my firm belief that the only thing we have to fear is fear itself—nameless, unreasoning, unjustified terror which paralyzes needed efforts to convert retreat into advance.

FRANKLIN ROOSEVELT, First Inaugural Address

Roosevelt immediately began a program of government reform that he called the **New Deal**. Large public works projects helped to provide jobs for the unemployed. New government agencies gave financial help to businesses and farms. Large amounts of public money were spent on welfare and relief programs. Roosevelt and his advisers believed that government spending would create jobs and start a recovery. Regulations were imposed to reform the stock market and the banking system.

The New Deal did eventually reform the American economic system. Roosevelt's leadership preserved the country's faith in its democratic political system. It also established him as a leader of democracy in a world threatened by ruthless dictators, as you will read about in Section 3.

SECTION 2 ASSESSMENT

TERMS & NAMES 1. For each term or name, write a sentence explaining its significance.

- coalition government
- Weimar Republic
- Great Depression
- Franklin D. Roosevelt
- New Deal

USING YOUR NOTES

2. What did President Roosevelt do to try to counter the effects of the Great Depression?



MAIN IDEAS

3. How did World War I change the balance of economic power in the world?
4. What problems did the collapse of the American economy cause in other countries?
5. How did Europe respond to the economic crisis?

CRITICAL THINKING & WRITING

6. **MAKING PREDICTIONS** What did the weakness of the League of Nations in 1928 suggest about its future effectiveness?
7. **ANALYZING CAUSES** List one cause for each of the following effects: American market for European goods dropped; unemployment rates soared; European banks and businesses closed.
8. **EVALUATING COURSES OF ACTION** Why do you think Roosevelt immediately established the New Deal?
9. **WRITING ACTIVITY** **ECONOMICS** Write **headlines** on the stock market crash and the world's response to it.

INTEGRATED TECHNOLOGY INTERNET ACTIVITY

Use the Internet to follow the ups and downs of the stock market for a week. Chart the stock market's course in a **line graph**.

INTERNET KEYWORD
stock market