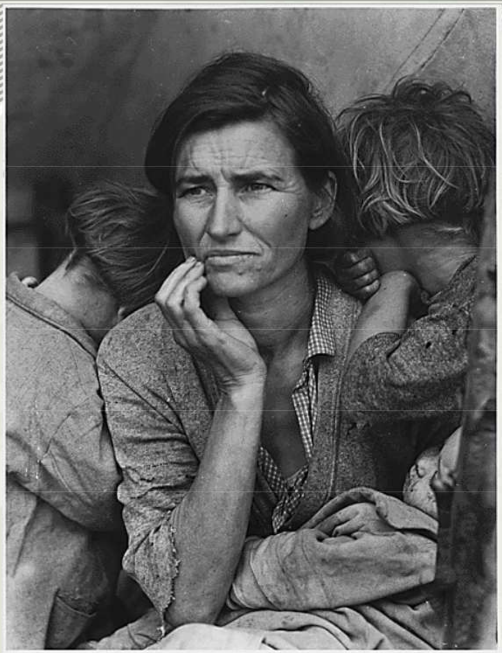
Canada Between the Wars

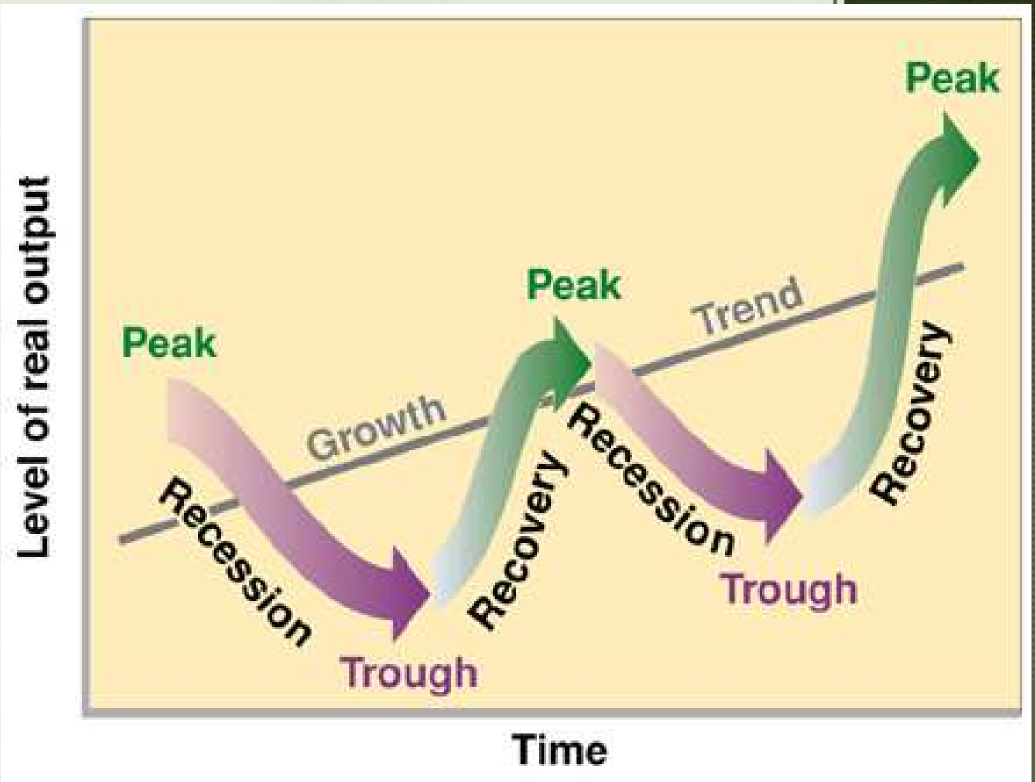
The Causes of the Great Depression



A. Recession and Depression

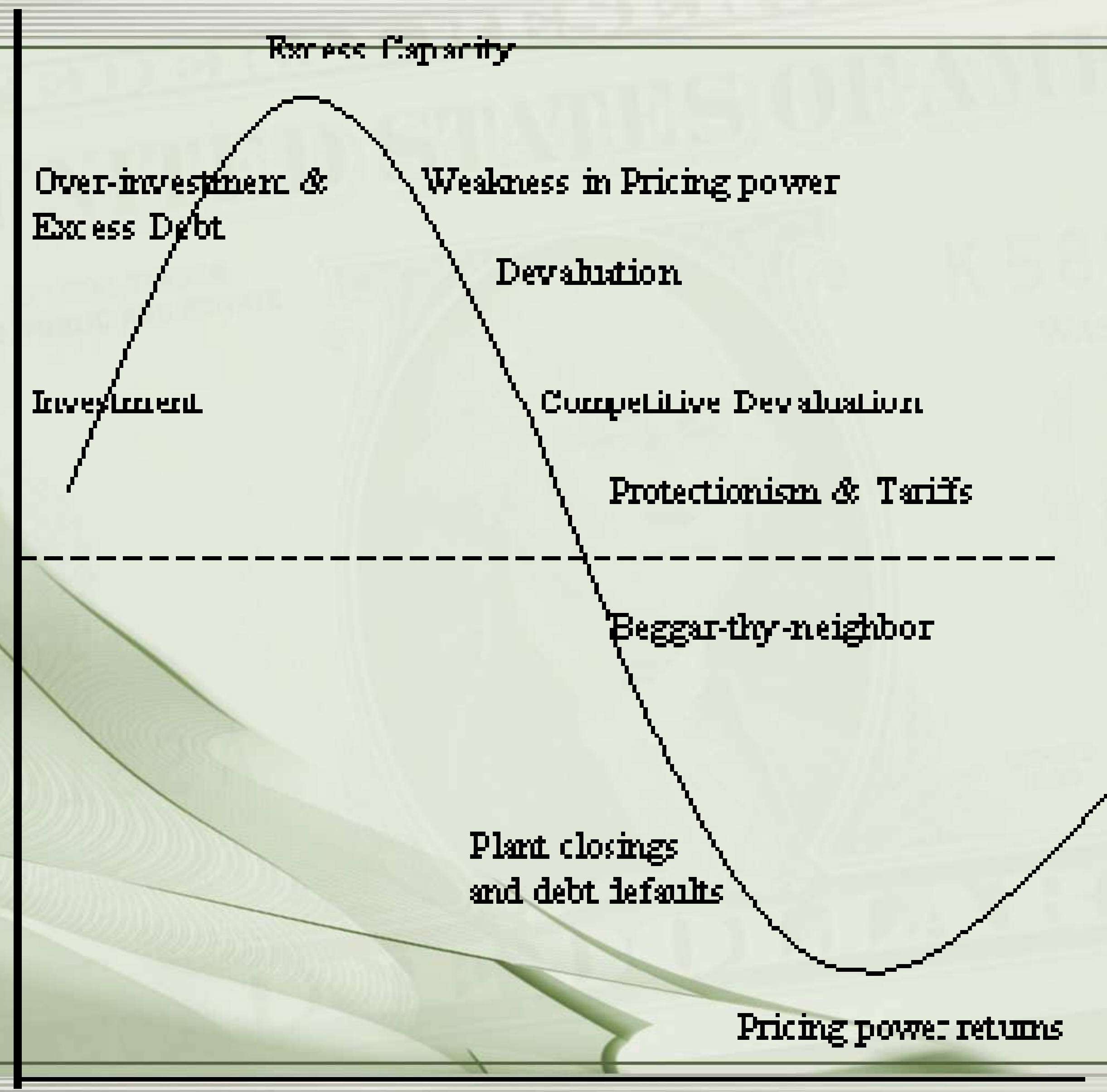
- *Economic markets have periods of rise and fall*
- ***<u>Recession</u>*** *is a period of shrinking economy*
- ***<u>Depression</u>*** *is a period of intense, deep recession*

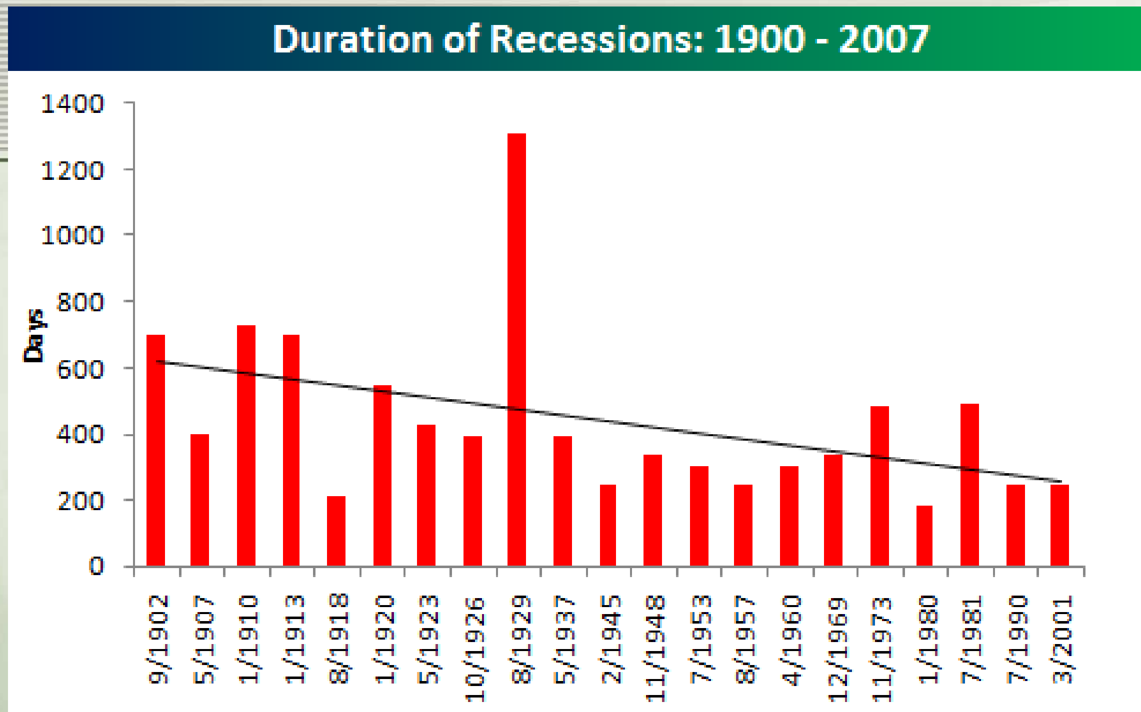
- *The Great Depression (1929-1939) was the longest and worst economic depression in history*



Economic Cycle

Economic Cycle




Duration of Recessions: 1900 - 2007
Days
1400
1200
1000
800
600
400
200
0
9/1902
5/1907
1/1910
1/1913
8/1918
1/1920
5/1923
10/1926
8/1929
5/1937
2/1945
11/1948
7/1953
8/1957
4/1960
12/1969
11/1973
1/1980
7/1981
7/1990
3/2001

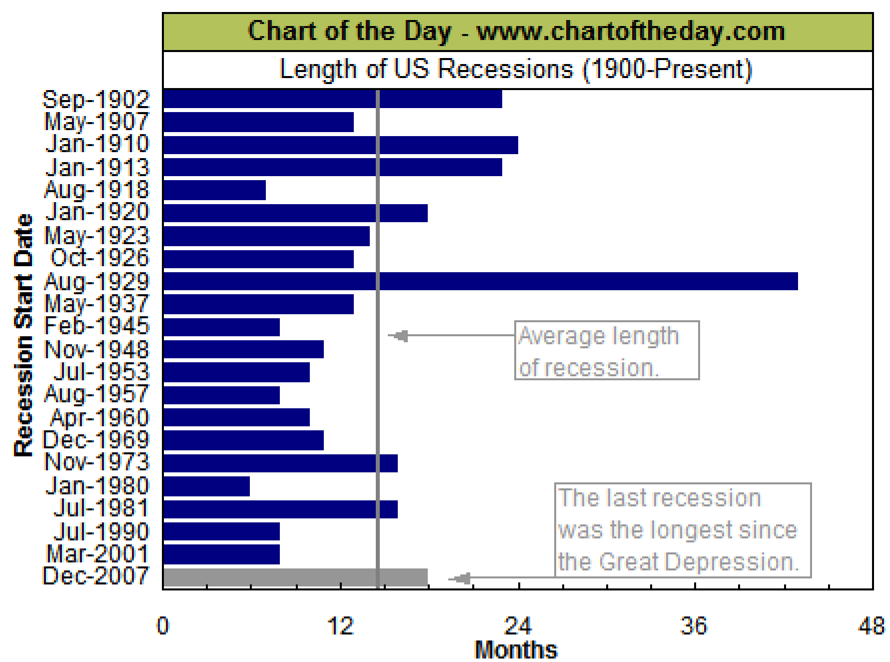


Chart of the Day - www.chartoftheday.com
Length of US Recessions (1900-Present)
Recession Start Date
Sep-1902
May-1907
Jan-1910
Jan-1913
Aug-1918
Jan-1920
May-1923
Oct-1926
Aug-1929
May-1937
Feb-1945
Nov-1948
Jul-1953
Aug-1957
Apr-1960
Dec-1969
Nov-1973
Jan-1980
Jul-1981
Jul-1990
Mar-2001
Dec-2007
Average length of recession.
The last recession was the longest since the Great Depression.
0
12
24
36
48
Months

B. Causes

- ***<u>High Tariffs</u>***
  - *slowed international trade*
  - *Countries tried to protect their own economies by taxing imported goods -*
    *– **<u>Economic Protectionism</u>***

President Herbert Hoover

B. Causes

- ***Overproduction***
- ***Farms:***
- *25% of US Population farmers*
- *mechanization - More food produced than can be sold*
- *Less demand from other countries*
- *Fewer jobs*
- *food prices fell*
- *Farmers income drop*
    - *unable to make payments – unemployment*
    - *Less purchasing power*

- ***Industry:***
- *more goods produced than sold*
- *(mass production, increased production efficiency)*
- *laid off workers*
- *less money in economy to buy goods*
- *downward spiral, more workers laid off.*

Photo by Dorothea Lange

- ***Wages:***
  - *did not keep pace with industrial profit.*
  - *Profits invested in capital expansion of production, not wages.*

- ***Credit Crunch:***
- *bad loans – people could not pay them back*
  - *banks lose money*
  - *Slow lending of money*
- *consumer debt spending – buy now pay later credit systems*
- *Few had savings – debts not paid when people lost jobs*
- *lead to collapse of banks*
  - *People's savings vanish*

- ***Investing: Buying Stocks on Margin (speculation)***
- *about a million people spent their savings or **borrowed** money to buy shares in the stock market*
- *hoping to cash in on rising stock prices. (What if prices fall?)*

- *Psychology of consumption.*
- *fed the optimism of investors and gave them unquestioning faith in prosperity.*
- *When the Stock Market Crash did come, it was even more devastating because of this unquestioned faith.*

- ***Over-Inflation:***
- *Many stocks were bought/sold for more than the real value of the company.*

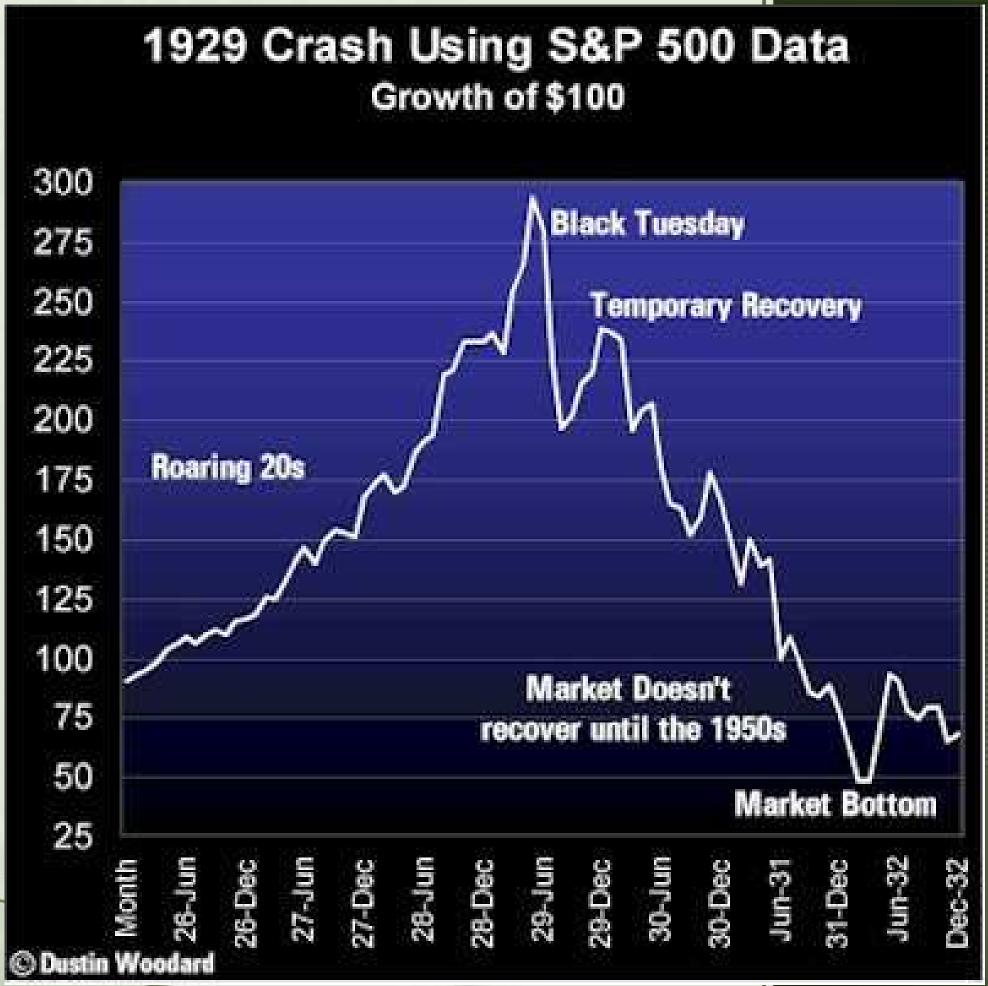
- ***War Debt:***
- *the USA leant money to Allies during the War*
- *These countries exported goods to pay back the USA.*
- *US tariffs damaged this ability*
- *World trade slowed*

- *Laissez- Faire Economic Policy*
  - *little government regulation or intervention in the economy*
    - *this was considered socialism*
  - *Little stock market regulation.*
  - *companies printed more and more common stock and sold them*
  - *Banks were not regulated*
  - *No social services, unemployment insurance, welfare or basic health care*

- ***In Canada:***
- *Canadian economy dependant on exports of* ***commodities***
- *when the economies of other countries shrunk, so did Canada's*
- *world prices for <u>commodities</u> fell*
- *65% of imports from USA*
- *40% of exports to USA*

C. The Crash of October 29, 1929 (NYC Stock Market)

- *often, the New York stock market crash of October 1929 is mistakenly considered to be a cause of the Great Depression. IT WAS NOT A CAUSE*
- *It was a symptom/response that the economy was in trouble for a very long time and nobody was paying attention.*



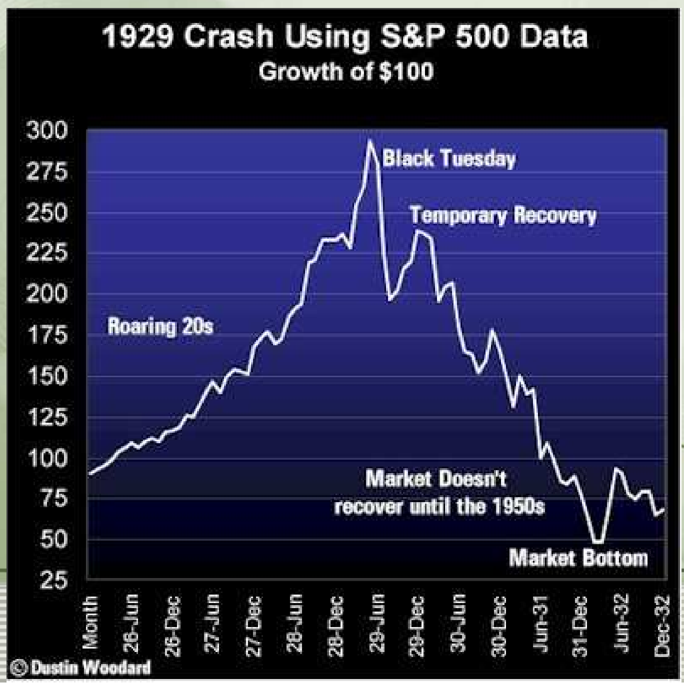
Panic on Wall Street, October 24, 1929

FYI: The Crash Timeline:

- *People Scared*
  - *Mon. 21st Oct - Over 6 million shares change hands.*
  - *prices fluctuate rapidly*
- *BLACK THURSDAY: October 24, 1929*
  - *people began dumping their stocks as quickly as they could.*
    - *13million shares are sold*
- *Fri 25th Oct - Top banks try to prop up market*
  - *buying millions of shares for more than their worth*
  - *keep prices from falling (temporarily)*

- *Sat 26th Oct - President Hoover "The fundamental business of the country, is on a sound and secure basis"*
- *Mon. 28th Oct - more selling 3 million shares sold in the last hour of trading, 9 million sold in total*
- *Banks stop supporting prices of stocks by buying them up*

- *Tuesday 29th Oct – BLACK TUESDAY*
- *People sell stock until no one is left to buy*
- *This was the beginning of the Great Crash.*
  - *single worst day in stock market history*



BLACK TUESDAY

NEW YORK, TUESDAY, OCTOBER 29, 1929

THE STOCK MARKET CRASH OF 1929

BY BARBARA SILBERDICK FEINBERG

NEW YORK, OCTOBER 29 — Another hurricane of liquidation hit the stock market today, as financial uncertainty fed on rumor and turned to panic. Frightened investors ordered their brokers to sell at any price, and the stock market crashed. Those on the floor of the Wall Street exchange waded in paper and tried to add up their losses.

It is believed those losses total billions of dollars. Thousands of accounts were wiped out as a record number of shares were traded. Some stocks were almost given away. Millions of shares traded hands.

Brokers on the floor of the Exchange have never seen a day like this. The shock on Wall Street spread to other exchanges and markets. It was a country-wide collapse of security values in which losses were the most disastrous and far-reaching in the history of the Stock Exchange. There was near-panic on the Chicago commodities exchange. Rumors spread from one end of the United

Crowds Gathered On Wall Street As The Market Went Into Historical Decline

D. The Consequences

- *public confidence in US economy was shattered*
- *Oct.29 to Nov 13 over $30 billion disappeared from financial markets*
  - *(US spent this amount on all of WW1)*
- *Businesses close – many jobless*
- *Many banks close – peoples savings gone*
- *Many forced into subsistence living – buy less*
- *Market will not recover until 1950s*

Fred Bell was a wealthy businessman before the Wall Street Crash. He became one of the many unemployed men who tried to make a living by selling apples in the street

US UNEMPLOYMENT DATA