The Global Consequences of the 1920s Great Depression

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ABSTRACT

Depression means economic recession. It means slump or economic decline. It is usually characterized by fall in prices, cases of over credit, and barter rate of trade and in some circumstances trade is completely stopped. It is a situation that is characterized by unemployment, lack of market and lower purchasing power, low productivity and lot of social problems. It is in this circumstances, that I intend to discuss the world’s economic depression which spanned between 1920s and 1930s.

INTRODUCTION

The trade recession of the 1920s shattered growing confidence in Europe. In 1929, there was trade depression in America and it spread rapidly to the rest of the world. Unsold goods were accumulated. In America production slowed down because there was no base for them to expand. In some cases companies collapsed. In Brazil Producers of coffee could not find good use of their Beans. Tons of grains rotted in America because there were no outlets for them. Factories failed drastically, unemployment figure rose tremendously. There was less money in the pockets of the unemployed Americans necessitating low purchase power as fewer goods were sold.

Financial crises outstandingly developed. As individuals were drawing on their savings so were creditor nations looking for the repayment of outstanding debts. Americans tried to recover the money they loaned to Europe. There was all round demand for money, usually in the form of gold. The depression had made it impossible for Banks to exist. Banks were forced to close because their reserves had finished. Indeed, in May, 1931, credit Anstalt, Austria’s leading Bank had to close. (Watson, 1977)

There was complete loss of confidence in East and Western Europe’s banks. For example the German’s Reichsbank was weakened and people lost confidence in it. Credit Anstalt, a leading Austrian bank also collapsed. Soon the crises spread to London. Europeans had a general distrust of paper money. As a result of crisis of confidence, the there was a complete breakdown of political orderliness in the world, particularly in Germany and England. Similarly there was complete desire for gold as confidence in paper money was no longer there. The world’s desire for gold was actually necessitated by its invulnerability to decline in value.

With dwindling reserve, the Bank of England desperately needed help. In the summer of 1931, it was the U.S.A that volunteered to assist England.
The British financiers kicked against such assistance unless the British government reduced her spending.

Series of committees were set to review the finances of British government with a view to cutting down its expenses. In July 1931, the committee’s report recommended increase in British taxation and the government to cut down its expenditure. This was aimed at disallowing British government from Bankruptcy. American loans resuscitated the Bank of England and the financial crisis subsided. British’s situation was so appalling that the labour party which formed the government had to resign in August, 1931. It was about the same time according to Thompson (1965) that the Weimar Republic in Germany was destroyed. This gave room for the emergence of Adolf Hitler.

The loans provided by Americans to England could only sustain British’s government in maintaining her economy. Her unemployment problems grew tremendously. Even in America, measures were taken to improve the depression. The American stopped all debts settlement and raised the import duties in goods taken into their country. This measure merely worsened the American workers’ conditions. Strikes and demonstrations were on the increase, The republican party lost grip of control as a result of these strikes. In the ensued election, the Democratic Party won overwhelmingly. By 1932, (Thompson, 1965) unemployment figures were nearing 14 million in America, 6 million in Germany and 3 million in Britain.

CONSEQUENCES OF THE DEPRESSION.

In the United State the depression had brought about changes in the social, economic and political spheres of the society. The Democrats won the general election of 1932 by an overwhelming votes. Consequently, Franklin Roosvelt took over the presidency of America from Hoover.

The economic depression in America won Roosvelt the election. He was the first American Democrat to become president after Woodrow Wilson. He remained in office until 1945 after his death, being re-elected in 1936, 1940 and in 1944.

Roosvelt had very great determination to succeed in revamping American economy which informed his election victories consecutively. His pledge was to restore confidence in banks, in business and in spending. His motto was “Action, and action now”.

His policies were pragmatic, particularly his vigorous New Deal which spanned between 1933 and 1939. His emergency banking laws initiative saw weak American banks out of business and gave way to strong banking business. Confidence was restored to banking sector as those on the verge of collapse were revamped.
Roosvelt’s Welfarist programe was superb. He created jobs and helped the poor Americans Through his federal emergency Relief Administration.

To solve the problems of Americans, Roosvelt mounted anti-corruption policy. It won the heart of the Americans particularly, the business class. He tackled the problem of child labour. He improved the working condition, encouraged labour unions. He improved agriculture through the irrigation system, which developed along the Rivers, the jobless were able to get engaged. He introduced the Agricultural Adjustment Administration Policy. In this system modern farming techniques were encouraged. Equipment, funds and other assistance were given to the farmers. This development encouraged maximum production.

He introduced a social security insurance policy. Beneficiaries were in the categories of widows, disabled, the jobless etc. This policy solved great problems in the period of great depression.

According to Yass(1970), the great depression had affected the Great Britain tremendously. The British government was ruled by a National government from August 1931. It was a conservative government headed by MacDonald (1931 –35) Baldwin (1935 –37) Chamberlain (1937 – 1940). The economic recovery was quite slow comparative to America.

The British government began by making sure that it demystified the myth surrounding gold. During depression, paper money became worthless, gold was the only honoured money. By this, the gold reserve in Britain was ensured. Britain introduced a policy of cheap money. The interest rates on government stock were cut to $3\frac{1}{2}\%$ to reduce government’s interest payments. All these measure were taken so as to attract British trading partners. The government supported entrepreneurs. Some basic items were exempted from this import duty of 20%. These were usually items imported from the commonwealth countries to Britain. The government began to give subsidies to industries. Those not able to survive without subsidies were nationalized e.g. the mining, coal, and other heavy industries.

A policy of dole and means test was introduced by the government. In this regard, the unemployed were required to reveal the income of the entire family, if the family means were sufficient, the dole could be cut or stopped. This enabled the government to pursue its passion for saving money. This was indeed at the expense of the pride of the jobless. It was indeed a bitter policy on the unemployed.

According to Cooles(1964), the consequences of the Depression in Germany and Austria-Hungary were quite enormous. The depression eradicated democracy; it gave rise to Dictatorial Leaders. Fascist, Totalitarian, Dictatorship and other forms of fascist regimes came in to dominance.
In Japan, the position of military class was threatened by the depression. The Samurai, started to expand their military activities to other areas e.g. Manchuria. During this period, the Samurai had lost grip of their wealth as deflation set in, rice economy was replaced by money economy. In exchange of their rice for money, the Samurai became displaced as they went in search of entrepreneur who had control of money economy.

In Italy, the depression made Mussolini to come to power. He wanted to save Italy from depression. He fought against the determination of Italian currency. The situation was worsened as a result of her war with Ethiopia.

In the communist Russia, the depression did not affect her. It was only confined in the capitalist countries. This was because Russia’s economy was not dependant on capitalist economy.

The activities of the intellectual reformers in revamping the economy of the depressed countries were quite important in this regard. They wrote books and propagated theories. Prof. Keynes was one of such theorists. He tried between 1929 – 33 to find economic solutions and the problems that emerged at that time.

Keynes theory of “state monopoly capitalism”, generated serious reaction from other intellectuals. Keynes condemned the Versailles Treaty because according to him the terms of the Treaty and its reparation imposed on Germany were phenomena that were considered by him as a sort of imposition on Germany and may result into another crisis perhaps World war II.

Keynes realized that by this treaty Germany and the rest of the world had been rendered useless. He believed that the continent of Europe and the whole world were moving towards bankruptcy – a situation that was inimical to capitalism.

The impact of the depression on African colonies was that of a very sharp fluctuation in the world demand for Africa commodities. African colonies were Buffer Zones for the metropolitan economies. They provided shock absorber to companies in their mother country. The European governments introduced “cheaper buying monopolies” to alleviate economic crisis in Africa. Colonial government regulated prices of commodities sold in Africa. They imposed on Africa middlemen and peasants who were the producers of these goods. All these were aimed at increasing colonial administration finances. These taxes made it possible for raw material to be purchased at cheaper rate.

Most European companies in African colonies retrenched their labourers and most of these labourers left for their villages to produce goods for subsistence and export. Example of such companies was the “Belgium Union miniere” (mining company). These mining companies were merged together and some workers will retrenched. In colonies where there were
settler economies e.g Kenya, Liberia and Rhodesia (Zimbabwe) the locally based merchants were sent to the farms.

Concomitantly, African economies were affected. The colonial administrators cut down all expenditures and most of the colonial employment and public works projects were reduced. Many mining and plantations were closed down. Lots of African staff were laid off thereby resorting to production of more and more goods.

In swift reaction, protest, riots, rebellions etc. against the low prices of their commodities and all forms of exploitations were the end point of this glut in Africa.

CONCLUSION

The world economic recession of the 1920s–1930s was characterized by Bankruptcy, Poverty, Unemployment, Violence and extremism of fascism and totalitarianism. It was indeed a phenomena growth that accentuated the second world war.

REFERENCES


Thompson, D, (1965) Europe Since Napoleon, Cambridge London.


QUESTIONS

1. What is Depression? How did it affect the World’s financial crisis?

2. Explain in detail the condition of the unemployed in Britain during the 1920s trade recession.