

**NAME:**  
**PD#**

## **Global Depression Causes (1920s - 1930s)**

### **1. Adherence to the Gold Standard:**

Leading up to WWI, many nations abandoned the gold standard in order to manipulate their currencies, allowing them to quickly build up their military. By the end of WWI, many currencies were devalued to almost nothing. To rectify the matter, most nations reverted back to the gold standard to stabilize the value of their currency. However, economies were in ruin, and therefore, consumer demand around the globe fell. Being pegged to the gold standard did not spur spending. It had the opposite effect, causing people to hoard gold and the currencies pegged to it, resulting in a lack of liquidity in the system (credit crunch).

### **2. World War I:**

The high loss of life, along with the devastating economic and infrastructural damage inhibited consumer spending (after a temporary post-war boost that proved to be unsustainable). Plus, production capabilities throughout Europe were only a fraction of pre-war levels. Consequently, international commerce slowed to a trickle, causing a ripple effect throughout the world.

### **3. 1929 Stock Market Crash:**

Marked a serious downturn in the U.S. economy. Until 1929, Europe was surviving economically in large part due to accessible loans from the U.S. As a result of the crash, the availability of funds from the U.S. dried up, drastically reducing international trade, and therefore grinding local economies to a halt. The 1929 crash was a result of over speculation, as post-WWI euphoria led investors to overestimate stock and commodity values, and the crash occurred when the bubble finally burst.

### **4. Deflation:**

Due to the factors above, consumer spending was weak. When production capacities finally recovered, an excess of goods were manufactured, but with limited demand, prices fell excessively, creating a poor business and wage environment.

### **5. Capitalism/Liquidity:**








Due to reasons above, the conditions for investment were poor, resulting in money/gold hoarding. Western nations continued to maintain faith that a pure, free-market economy would eventually result in self-correction. But as the mid-1930s approached, there was no sign of the end. Without government intervention, there was insufficient liquidity in the system. Without liquidity, there was a lack of personal and business spending needed to drive a capitalistic economy. Socialistic economies, such as Communist Russia and Nazi Germany were unaffected by the Global Depression, but they depended on slave labor and heavy government subsidies, which proved to be unsustainable over the long term.

### **6. Interest Rates:**

The newly-created U.S. Federal Reserve failed to drop interest rates in order to spur lending and investing in a deflationary environment.

### **7. Communism Outperforms Capitalism during Global Depression**

Communist Russia avoided the depression largely due to price controls and guaranteed employment (all basically subsidized by government). Russia's planned economy held no connection to the stock market (no speculations to affect prices of commodities), nor was Russia reliant on exports. Russia nationalized industry, taking over private lands, factories, etc., essentially robbing landowners of wealth for the common good. The system was very bad for landowners, but good for a stable economy. Communist Russia also exploited millions in forced labor camps (Gulags), providing free labor for the benefit of the public, but at a steep cost in human life and tragedy. Communism would prove to be unsustainable over the long term, but worked during a time when it was widely supported by the public, since it represented an improvement from the instability and warfare experienced during the last few decades of imperial rule, and was better than the Global Depression effects suffered by capitalistic economies world-wide

<p><b>Causes of the Global (Great) Depression</b></p>	
<p>Gold Standard</p> 	<p>What does it mean to be on the “gold standard”? / What is “liquidity”?</p>
<p>WWI</p> 	<p>How did the war lead to an economic depression?</p>
<p>Stock Market Crash</p> 	<p>Why did the US stock crash eventually affect the entire world economy?</p>
<p>Deflation</p> 	<p>Why might low prices on goods be a bad thing?</p>
<p>Capitalism</p> 	<p>Why is it bad if people are not spending their money? Why was early Nazi Germany not affected by the depression?</p>
<p>Interest Rates</p> 	<p>In your own words, explain what an “interest rate” is.</p>
<p>Communism</p> 	<p>Describe the POSITIVE and NEGATIVE factors of how Communist Russia avoided depression.</p>

