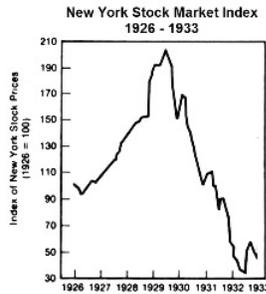


# THE GREAT DEPRESSION



The political, social, and economic consequences produced after the collapse of the world's most important stock market, New York Wall Street on October 29, 1929, is known as "The Great Depression." That day began to be called black Thursday. This stock market crisis is known as the '29 crash. The reasons for the stock market crash are multiple and complex; although, they can be summarized in two. First of all, during World War I, the participating countries dedicated themselves to developing their arms industry; at the same time, the neutral countries (USA, Australia, Argentina, Spain, Japan, etc.) increased their production of all types of products to satisfy these belligerent countries. At the end of the war, this group of countries maintained the same high level of production, while the belligerent countries also recovered their old high level of production. The consequence was overproduction, which caused a dangerous accumulation of stocks of the products, especially agricultural and industrial.



The second cause, closely related to the previous one, was speculation. The real situation of the companies did not correspond, in many cases, with the high value that their shares had on the stock market. Also, the economy of the most prosperous country, the US, was based in the 1920s on wild property speculation and

the fever to invest money in the stock market to obtain quick money. The latter was carried out by all social classes, from the most powerful to the humblest. People invested all their savings in shares of companies that appeared to be healthy. Investors borrowed money from banks to play the stock market and banks, without worrying about the creditworthiness of those clients, lent it. Many companies did the same thing. They borrowed from the banks to misrepresent the state of their actual accounts and the losses from the rapidly falling prices and the market saturation.

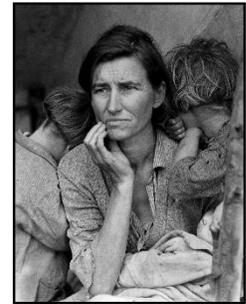
On Black Thursday, there was a massive sale of the shares. By mid-afternoon, there was no one to buy them since their price had plummeted. The result, mid-afternoon, was the total collapse and bankruptcy of the stock market. A devastating fact highlighted by the fact that by the end of that day, eleven investors who were completely ruined had committed suicide. This financial ruin happened to a large part of the citizens of the United States.



The consequences of this bankruptcy are known as the Great Depression. They affected not only the United States but practically all industrial countries with a more or less developed economy and connected to international commercial circuits. The consequences were reflected in the economy (production low as demand and foreign trade also remained low), in the population (birth rates fell, mortality increased, and migration from Europe to America slowed), in society (when many factories and companies closed, unemployment increased



and generated a lot of discomfort and distrust of capitalism by the working classes and even the middle class, with strikes and confrontations), and in politics (the population began to mistrust democratic systems to support



solutions authoritarian policies that offered drastic outlets, as happened in Germany with Adolf Hitler's Nazi party).



The Great Depression in the USA: in this country, millions of people lost their money and all their savings. Numerous banks had to close as they were unable to recover the borrowed money. Many farmers and industrialists were ruined by declining sales. The government paralyzed foreign trade by practicing a protectionist policy (preventing

foreign products from entering a country by imposing high customs duties and thus protecting your production). Finally, the surviving banks began to claim all the capital loaned to countries such as France, Germany, etc., which further aggravated their crisis. In 1932 there was in the USA about 13,000,000 unemployed (25% of the active population).

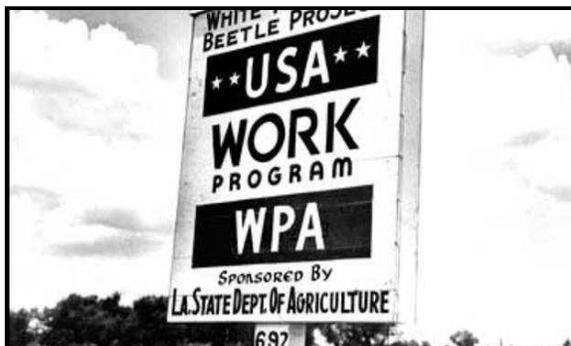


The arrival at the White House of President Franklin Delano Roosevelt, in 1933, was important, since this president launched an ambitious program of economic and social reforms known as the New Deal (New Deal).



This program imposed greater state intervention in the economy, such as forcing banks to grant low-interest loans; grant large subsidies to farmers so that they do not leave their fields and to the industry to decrease production and thus not have to close more factories. The workday was also reduced, wages were established minimums, unemployment insurance, etc. But the most novel thing was that the State acted as the main investor when creating jobs with the promotion of works that gave work to millions of Americans.

What the United States was seeking was to increase consumption in order to relaunch production. This economic model was inspired by the ideas of the British economist John Maynard Keynes. The results of this novel policy at the beginning were not as expected since it was not possible to recover the employment that existed in 1929, nor the level of production, but it did allow the United States to face the Second World War as the undisputed great power, politically, militarily, and later economically worldwide.



Name \_\_\_\_\_

Date \_\_\_\_\_

Answer the questions.

1. What nationality was the economist John Maynard Keynes, who influenced Roosevelt's reformist policies so much?
  - a. Belgian
  - b. Irish
  - c. British
  - d. Australian
  
2. What does New Deal mean in Spanish?
  - a. New Deal
  - b. New Frontier
  - c. New Commitment
  - d. New Strategy
  
3. What did the vast majority of American banks do during the 1920, and what was one of the causes of the Crash and subsequent Great Depression?
  - a. They charged high interest on credits.
  - b. They invested large amounts of money in companies.
  - c. They granted loans to companies so that they hide their losses due to the drop in prices and production.
  - d. They provided help to increase the production of companies.
  
4. Approximately how many unemployed did the United States reach during the Great Depression?
  - a. 11 million
  - b. 13 million
  - c. 15 million
  - d. 20 million
  
5. What major political consequence did the Crash produce?
  - a. a distrust of democratic regimes in favor of totalitarians
  - b. the emergence of communist parties
  - c. the disappearance of elections in many countries
  - d. the outbreak of World War II