Global Great Depression

By Bennett Sherry

The Great Depression was a global catastrophe that affected the lives of billions and helped cause the Second World War. The old saying, "the bigger they are, the harder they fall," applies to economic systems.

Capitalism in Crisis

On the morning of Thursday, October 24th, 1929 the New York stock market began a crash that would last four days. The fallout of that crash would last a decade. It started in the United States, but the Great Depression was an unprecedented, worldwide economic collapse. The ripple effects of "Black Thursday" would be felt all over the globe. As the Great Depression got worse in the early 1930s, it appeared that, a decade after the end of the First World War, the old European-centered capitalist economic order was collapsing.

This course has emphasized how the Long Nineteenth Century created a single global economic system that linked the world through trade and finance. Because of this, when most of Europe went to war in 1914, much of the rest of the world had been affected in some way. These connections continued after the war as well. Let's follow them to see how the crash of the U.S. economy could spread to the rest of the world.

First, European markets were closely connected to American markets. As European countries tried to recover from the war, they depended on American financing. That's how in 1929, when the American economy started its crash, it brought Europe down with it. Then it was Europe's connections that quickly made this a global economic crisis. Remember that by the early twentieth century, a lot of the world lived under some form of European colonialism. European global empires linked far-flung economies in Asia, Africa, and the Middle East to Europe and the Americas. It didn't take long for the dominoes to fall.

Crisis and Isolationism in the West

What caused the Great Depression? Many things, but inequality was high on the list. In 1929, the top 1 percent of Americans owned more than half of their country's wealth[1]. Many of the remaining 99 percent went into debt during the 1920s to support their consumer lifestyles and open businesses. To make matters worse, wealthy financiers on Wall Street took on risky debts and made risky investments. This recipe for disaster is what cooked up the 1929 stock market crash. People—mainly in the United States, but also from other parts of the world—responded to the stock market crash in the worst way possible: they panicked. They took all their money out of the banks. Now banks didn't have enough cash on hand, and the whole crisis got worse.

A crowd gathers outside a New York bank, waiting to withdraw their money. Public domain.

In the first years of the depression, the global production of goods ground to a halt. American manufacturing declined by 36 percent from 1929 to 1930 and by another 36 percent the following year. International trade fell by 30 percent. As a result, the price of even basic necessities, like wheat and rice, plummeted. Wheat prices fell by 40 percent and rice by 50 percent, globally. The price of coffee, cotton, rubber, and other cash crops fell 40 percent, crippling the economies that produced them. As production and trade declined, factories shut down, and workers lost their jobs. By 1932, around 30 million people were unemployed worldwide. Unemployment rates were most extreme in the United States and Germany, but they were bad everywhere. In 1933, 25 percent of American workers were unemployed.

1 And in fact, the top one tenth of one percent controlled almost 25 percent of American wealth.

Another way the dominoes kept falling was a lack of international cooperation. All over the world, governments chose to put tariffs in place. Tariffs are taxes on foreign goods. They're intended to force citizens to buy domestic goods by making imports more expensive. But during the Great Depression, tariffs made matters a lot worse, especially for people living in European colonies and Latin America.

Crisis and Exploitation in the Colonies

Unemployment statistics in the United States and Europe are impressively scary, but in Latin America and in European colonies in Africa and Asia, the Great Depression also had devastating effects. Europeans had been using many of their colonies to grow cash crops like rubber, sugar, and coffee. Cash crops aren't for local consumption, and they're not necessities.

West African rubber trees helped build the growing auto industries of Europe and North America. Pop quiz: What do people not buy when they've just lost their job and all their money? If you said "cars" you are correct! So British and French colonies in West Africa (and Southeast Asia) suddenly found themselves with a bunch of rubber that no one wanted to buy. They couldn't use it, sell it, or eat it.

As cash-strapped consumers in the United States and Europe cut back on non-essentials like chocolate, coffee, cars, and diamonds, it was Latin America and the colonized world who paid the price. Tariffs were particularly harmful, but in addition, colonial governments tried to wring as much resource and tax value out of them as possible to benefit struggling European economies. Of course, colonized people did resist. Moses Ochonu, a historian of colonial Africa, details how Nigerians found methods to cope with economic decline and resist further colonial exploitation. Organized labor strikes and tax revolts directly resisted the increasingly harsh conditions. But some found other methods to escape or resist worsening laws and taxation. For example, Nigerian women started local textile businesses, and farmers turned their cash crops into food crops for local sale. Still others adopted a semi-nomadic lifestyle in order to avoid paying taxes.

As the Economy Falls, the State Rises

The Great Depression changed the way governments saw their relationship to production and distribution. This was a collapse of global proportions, but it was specifically a collapse of industrial free-trade capitalism. The Soviet Union—the world's first state based on communist economics—did not suffer economic collapse. To the contrary, the Soviet economy grew and unemployment shrank. Of course, Joseph Stalin broke a few eggs in making this economic omelet[2]—around 20 million of them. As the U.S.S.R. transformed itself into a state-planned industrial economy in the 1930's, Stalin's government purged Soviet society of anyone who resisted. Around 20 million people starved or were killed in these purges. Nevertheless, the Soviet economy looked better, and this was one reason many countries in the West began to think maybe they should be controlling their economies more as well.

In Western Europe and the United States, governments started taking a more active role in directing the economy and providing social safety nets for their citizens. The state, rather than the family, became the last line of defense against starvation. While still not nearly as rigid as the state-planned economy of the U.S.S.R., these new economic experiments—some call it welfare capitalism, democratic socialism, or the welfare state—gave more power to the state in controlling production and distribution. The U.S. president, Franklin Roosevelt, for example, sought to address wealth inequality and provide government jobs through the reforms and massive public works projects of the New Deal. Today, the minimum wage you're guaranteed for summer jobs; the social security your grandparents

2 The idiomatic expression, "You have to break a few eggs to make an omelet," is a way of saying that a constructive goal is often achieved by destructive actions.

receive; and much of the infrastructure you depend on has its roots in Roosevelt's "New Deal" from the 1930s. These policies all gave more security to American citizens. But many capitalists and conservative politicians worried that it gave too much power to the government. At the time, they called Roosevelt's plan for social security "the lash of the dictator", though many of its reforms endure to this day.

Eleanor Roosevelt, first lady of the United States, visiting Iowa in 1936 to see a New Deal public works project. Public domain.

War and Money

American political rhetoric may have called New Deal policies "dictatorial", but elsewhere actual dictators rose to power during the depression. Most historians think that economic conditions weren't directly responsible for dictators like Adolf Hitler in Germany; however, others argue that they did help them to appeal to suffering populations. And these authoritarian dictators—especially Adolf Hitler in Germany—set the stage for history's deadliest conflict: the Second World War.

Ultimately, it wasn't welfare reforms that ended the Great Depression. It was war. Germany, Japan, and Italy took state control to the extreme with militant authoritarianism and fascism. Germany and Japan pulled their countries out of economic stagnation by increasing military production and using their new military might to aggressively seize new land and resources. The U.S. economy, where the depression was most pronounced, only recovered when it started building and selling huge numbers of expensive tanks, planes, and ships. One way to fix unemployment was to hire people to make guns and shoot other people with them.

In addition to setting the stage for WWII, the Great Depression prepared parts of the world for the waves of decolonization that followed the war. Colonized people in Africa and Asia were hit hard by the depression. After the war, they looked around at a global capitalist-imperialist system that produced economic collapse and two world wars. And they asked themselves: "why do we let them rule us?"

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