

Economic Aspects of the Great Depression in the United States, 1929 – 1939

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Abstract: *The Great Depression is a historical event that has received much scholarly attention. In spite of this, there is a dearth of literature focusing directly on the economic context of the Great Depression. This gap, accentuated by extant studies, has created a need for a study in this regard. Using the extant literature, consistent with an interdisciplinary approach, the paper discusses the concept and causes of the Great Depression, and its economic implications are equally examined. The efforts made by the US to cushion the effects of the Great Depression, as well as the end of the Great Depression, have been analysed. The paper argues that the Great Depression had negatively affected the economy of the US and even beyond. It concludes that the policy measures to nip in the bud the critical challenges that emanated from the depression did not speedily revive the US economy, but at a slow pace, the country came out of the Great Depression.*

Keyword: economic aspects, great depression, causes, effects, end, United States

INTRODUCTION

The world had encountered challenges that were not promptly and properly tackled, thereby causing numerous challenges, including the First World War. Among these obstacles were the two great power combinations that emerged after Germany humiliated and destroyed France in the 1870s. These alliances were the Triple Entente (Great Britain, France, and Russia) and the Triple Alliance (Germany, Australia, Hungary, and Italy).¹ Every alliance was aimed at outgunning the other militarily. Tensions and rivalries emerged amongst the different participants in the two coalitions, posing a risk to the involvement of other

¹ G.I.C. Eluwa, M.A. Ukagwu, J.U.N Nwachukwu, and C.A.N. Nwaubani, *Africa and the Wider World Sinc 1810 AD* (Onitsha: Africana – First publishers Limited), 1996, 194-195

members. The conflict was started by the crises that emerged in the first few decades of the 20th century, especially in Morocco and the Balkans, which raised international tensions. Nationalism in Europe has turned violent and greedy. For various reasons, all of the European countries believed that they had to grow.² Due to rivalry for colonies in Africa sparked by this territorial desire, the First World War and the Great Depression were eventually brought about.

The origins of the Great Depression are still up for debate, though, since many academics have taken differing stances on the matter. According to Edwin F. Gay, the US had experienced depressions in the past, most notably in the years after 1837, 1873, and 1893. However, during those times, it had access to free land to absorb its jobless population and a growing European market for its increasing agricultural output.³ The Federal Reserve System was established in 1907 to address an unacceptable vulnerability following another extended financial crisis. Despite extremely powerful banks in the world's top nations and highly productive machinery, labour, and resources, significant commercial downturns spread over the globe.⁴

The Great Depression had an unprecedentedly broad scope. Even in the past great crises, some countries have been partially affected, even though economic interconnectedness between nations is rising. Numerous countries have been hit concurrently by past crises. The financial cycles in different countries have not always coincided, and some nations were already experiencing a drop in wealth when the US market crashed. However, there were detrimental social, political, and economic effects on the US.⁵

It is on this premise that, this paper hinges on the economic dimensions of the Great Depression in the US. Although other countries also suffered the consequences of the depression, this study has been limited to the US to enhance an in-depth analysis of the phenomenon; in doing this, the study has been structurally divided. Besides, the introduction the study discusses the concepts of the Great Depression. Following this, are the causes, effects and efforts of the US Government in cushioning the effects of the Great Depression. The end of the depression has been analysed while the last sub-theme captioned as the conclusion attempted a recap of the main argument.

Conceptual Distinction Between the Great Depression and Economic Recession

The period of declining prices and earnings, as well as intense rivalry for survival in Britain and throughout the world, came to an end with the First World War (1914–1918). It also saw the US becoming a force to be reckoned with in terms of economic development. Indeed, throughout the second decades of the twentieth century, a remarkable concentration of socio-political and economic changes that would have a lasting effect on the global economy started to emerge.⁶

² G.I.C. Eluwa, M.A. Ukagwu, J.U.N Nwachukwu, and C.A.N. Nwaubani, *Africa and the Wider*, 194-195.

³ Edwin F. Gay, "The Great Depression", *Foreign Affairs* (Vol. 10, 1932), 531.

⁴ Edwin F. Gay, "The Great Depression, 531.

⁵ Edwin F. Gay, "The Great Depression, 531.

⁶ Mike O. Odey, *Food Crop Production, Hunger, and Rural Poverty in Nigeria's Benue Area, 1920-1995* (CAP African World Series) (USA: Carolina Academic Press, 2011), 114.

In contrast to forecasts, Britain had a brief period of economic expansion with rising prices and salaries from the spring of 1919 until the early summer of 1920. But then there was a downturn that persisted until 1922 and turned into an extended era of involuntary unemployment, economic stagnation, and deterioration. Generally speaking, the fits and starts following World War I seemed to indicate that nothing was certain, both nationally and internationally. These financial disruptions, or what experts referred to as the “boom and scatter” of the war and post-war eras, were what ultimately led to the 1929 crash, which is now known as the global economic slump. This depression was both endemic and cyclical.⁷

A depression is an artistic phrase without a definite definition. In general, it is a widespread economic collapse leading to significant unemployment from which there isn't a clear-cut way out. The primary distinction between a recession and a depression is that regular government policies and automatic market correctives cause ordinary recessions to recover rather quickly. Businesses clear up excess inventory or settle high debt. The government lowers interest rates and permits budget deficits. Depression arises when these defense systems are ineffective or take a long time to function.⁸ Because their roots are in institutions and concepts that have been superseded by events, depressions are not like normal business cycles that respond to standard treatments. Because they believe in things so strongly, it is painfully hard to let go of or adjust their emotional attachment, and the options are frequently confusing. Thus, if at all, correction takes place. Change is re-examined or goes in circles. Economies sputter or contract. One of the periods was the Great Depression.⁹

Robert O. Paxton and Julie Hessler opined that “depression is a prolonged slowdown in buying and selling: Businesses and farms can no longer sell all they produce. Stocks pile up, despite, competitive price cutting”.¹⁰ They further explain that in the process, “firms lay off workers or go broke. Because the unemployed stop buying, sales decline further. More firms closed, and banks that have lent them money can no longer cover their deposits. Bank failures sweep away savings. The sufferings are uneven. As prices fall, those who still have jobs or who spend cash reserves can get by. For the rest, there is only demoralizing helplessness”.¹¹ Depression has even more severe repercussions, including significant interruptions in economic activity and widespread unemployment while a recession is a downward trend in the economy that can have an impact on jobs and output as well as reduce family expenditure and income. Similarly, Emily S. Gerson notes that recessions are distinct from depressions in that the former are far more severe and persistent while a depression also has far-reaching impacts that continue long after the economy starts to recover.¹²

⁷ Mike O. Odey, *Food Crop Production, Hunger*, 114.

⁸ Franklin D. Roosevelt Presidential Library and Museum (available at <https://www.fdrlibrary.org/great-depression-facts> (Accessed on January 09, 2024).

⁹ Robert J. Samuelson, “Revisiting the Great Depression”, in *The Wilson Quarterly* (Vol.36, No.1, 2012), 36-43.

¹⁰ Robert O. Paxton and Julie Hessler, *Europe in the Nineteenth Century* (USA: Wadsworth, Cengage Learning, 2013), 263-267.

¹¹ Robert O. Paxton and Julie Hessler, *Europe in the Nineteenth*

¹² Emily S. Gerson, “What is the difference between recession and depression” (available at <https://www.experience.com>bolg>ask-experience>, accessed on January 09, 2024).

In his words, Robert C. Kelly posits that a significant and protracted decline in economic activity is called a depression. An intense recession that lasts three years or more, or that reduces real gross domestic product (GDP) by at least 10 percent in a single year, might be characterized as a depression.¹³ Compared to milder recessions, depressions are significantly less prevalent. Relatively low inflation and significant unemployment typically accompany both. Since 1850, the United States has gone through at least 34 recessions, the most recent of which were the Great Recession of 2008–2009 and the COVID-19 recession of 2020. However, it has only had one slump, known as the Great Slump, which lasted from 1929 to 1939. Recessions are seen as typical components of the boom-bust business cycle. A GDP drop that lasts for at least two quarters is the standard definition. Owing to the delay in gathering statistics on economic activity, a short-lived recession may have ended before its official confirmation. Depression has far more severe after effects and lasts for years.¹⁴

Causes of the Great Depression

Regarding the precise origins of the Great Depression, historians, political scientists, economists, and other academics cannot agree. Nonetheless, several academics concur that the following four elements were important. The 1929 stock market meltdown; the American stock market had a historic boom in the 1920s. People of ordinary means began to view investing in the stock market as an easy way to make money, and many even mortgaged their houses or used a large portion of their disposable income to purchase shares as prices surged to previously unheard-of heights.¹⁵ By the end of the decade, hundreds of millions of shares were traded on margin, which meant that the loans used to cover the purchase price were to be paid back with gains from the steadily rising share prices. Millions of overextended stockholders panicked when prices started to fall in October 1929 and hurried to sell their shares, which accelerated the slide and created further fear. October and November saw a 33 percent decline in stock values. The end effect was a severe psychological shock and a decline in consumer and business confidence in the economy.¹⁶ As a result, there was a sharp decline in company investment and consumer spending, particularly on durable goods. This resulted in lower industrial production and job losses, which further decreased investment and expenditure. To corroborate the above dismal scenario, Valerie Hansen and Kenneth R. Curtis succinctly stated that:

Financial market reflected the reflected the frenetic pace of life in the United State during the “jazz age” of the 1920s, with its glamorous movie stars, mass produced automobiles, and sectional gangsters. The speculators brought stock on borrowed money and, trusting that markets would endlessly increase in value, use paper profits to extend themselves even further. When the bubble burst investors and the bankers who had lent them money were

¹³ Robert C. Kelley, “What is Depression?” (available at <https://www.experience.com>bolg>ask-experience>, accessed on January 09, 2024).

¹⁴ Robert C. Kelley, “What is Depression?”

¹⁵ Richard H. Pell and Christiana D. Romer, “Great Depression Economy”, in Encyclopaedia Britannica (available at <https://www.britannica.com.money/topic/great-depression/source-of-recovery>, accessed on January 08, 2024)

¹⁶ Richard H. Pell and Christiana D. Romer, “Great Depression Economy”,

ruined. As capital investment dried up, the stock market collapse turned into a general economic crisis.¹⁷

Banking panics and monetary contraction; four protracted banking panics occurred in the US between 1930 and 1932, during which a sizable number of bank clients simultaneously sought to withdraw their cash deposits out of worry for the bank's viability.¹⁸ Ironically, a banking panic's usual result is to trigger the same disaster that anxious clients are trying to avoid: a significant panic can collapse even financially sound institutions. A four-day "bank holiday" (later extended by three days) was declared by the newly elected Franklin D. Roosevelt administration in 1933 after one-fifth of the nation's banks had failed by 1930. During this time, all banks in the nation were closed until they could demonstrate their solvency to government inspectors. As a result of several bank failures, there were fewer banks available to lend money, which naturally led to a decline in company investment and consumer expenditure. Additionally, there was less money available for lending, in part because cash was being hoarded by some.¹⁹ Some academics contend that the Federal Reserve, which purposefully decreased the money supply and raised interest rates to discourage lending further, worsened the issue by maintaining the gold standard which allowed the United States and many other nations to tie the value of their currencies to a fixed quantity of gold. Because fewer individuals believed their future earnings and profits would not be enough to pay back their loans, the decreased money supply in turn caused prices to decline, which further discouraged lending and investment.

The gold standard; regardless of how the gold standard affected the country's money supply, it is undeniable that it contributed to the Great Depression's international spread. The United States tended to run a trade surplus with other nations when it faced deflation and decreasing output because Americans were purchasing fewer imports while American products were still comparatively inexpensive. Due to these imbalances, the United States saw substantial outflows of foreign gold, which put the currencies of the nations whose gold reserves had been exhausted in jeopardy. As a result, foreign central banks raised interest rates to offset the trade deficit, which had the unintended consequence of decreasing output and prices and creating unemployment in those nations. The ensuing global economic downturn was almost as severe as that in the US, particularly in Europe.²⁰

Like other 20th-century tragedies, the Depression had its origins in the Great War, or what is now known as World War I. Before the conflict, the majority of industrialized nations guaranteed their currencies with precious metals, allowing citizens to take their money to the government and have

¹⁷ Valerie Hansen and Kenneth R. Curtis, *Voyages in World History* (International Edition) (USA: Wadsworth, Cengage Learning, 2013), 627-269.

¹⁸ Richard H. Pells and Christiana D. Romer, "Great Depression Economy", Encyclopedia Britannica (available at <https://www.britannica.com/money/topic/Great-Depression/sources-of-recovery->, accessed on January 08, 2024).

¹⁹ Michael A. Bernstein, *The Great Depression: Delayed Recovery and Economic Change in America 1929-39* (USA: Cambridge University Press) Reviewed by Lawrence Lifschultz for *Economic and Political Weekly*, Vol. 24, No. 3 (Jan. 21, 1989), pp. 138-141

²⁰ Michael A. Bernstein, *The Great Depression*,

it exchanged for gold (or occasionally silver) at a fixed rate. Because of the protection provided by convertibility, there was little inflation or deflation throughout the “Classical Gold Standard” era.

Governments sought to issue money fast when the war started so they could trade it for supplies. However, convertibility made it possible for citizens to buy gold with the new money at a fixed rate, which might deplete the country's gold holdings. Most nations halted conversion to prevent that issue. Although it did not do so formally, the United States joined the rest of the globe in employing the printing press to finance the war by discouraging "patriotic Americans" from trading their dollars for gold.²¹ Following the battle, nations had a dilemma: if they continued to convert at the previous exchange rate, individuals may utilize the money earned during the conflict to attack their country's gold reserves. This presented policymakers with a challenging decision: lower the amount of money in their economy (risking recession), increase gold reserves for conversion (which would be expensive), or adjust the exchange rate or forego conversion entirely (risking hyperinflation).

Choosing the second course of action, the United States and France started importing gold from throughout the globe in the late 1920s. The U.S. Federal Reserve increased interest rates and tightened banking regulations at the same time, aiming to contain the then-rising stock market and keep gold in American vaults. The gold-starved nations of the rest of the world, however, had to hike interest rates due to high-interest rates on US loans combined with conversion issues. Due to these measures, the amount of money in the global and American economy decreased, and creditors and consumers cut back on their expenditures.²² In the end, countries decided to either devalue their money or abandon the gold standard completely.²³ Their economies flourished and their money supply grew as a result. France (1936) and the United States (1933) were two of the last countries to come out of the Great Depression and to devalue. In 1937–1938, the United States even experienced a “recession within the Depression” as a result of readjusting the money supply.

The Depression was exacerbated by several government initiatives, including the mishandled return to the gold standard and US banking regulations. Under what were perhaps the tightest regulations in the world, state governments oversaw the majority of U.S. banks. A number of the regulations stipulated that the majority of banks have to be small, local businesses.²⁴ As a result, banks were vulnerable to regional economic downturns; a poor crop or a closed industry may spark a bank run that ultimately failed. After that, fear spread to nearby towns, where people would rush to their banks, causing them to collapse and spreading fear even further. What were supposed to be minor, localized economic setbacks led to waves of regional bank collapses during the Depression.²⁵ Thomas H. Laby brings to the fore that there was not only a deficiency of gold but it has been unequally

²¹ Richard H. Pells and Christiana D. Romer, “Great Depression Economy,

²² Romer, C “The Great Crash and the Onset,

²³ Ben Bernanke and Harold James. “The Gold Standard, Deflation, and Financial Crisis in the Great Depression: An International Comparison.” in R. Glenn Hubbard (ed.) *Financial Markets and Financial Crisis* (Chicago: University of Chicago Press), 1991.

²⁴ Thomas A. Firey, “The Magic of Money and the Fed Dilemma,” *Herald-Mail* (Hagerstown, MD), July 31, 2013.

²⁵ Gary Richardson. “Bank Distress during the Great Depression: The Illiquidity–Insolvency Debate Revisited.” *Explorations in Economic History* 44(4): 586–607.

distributed thereby aggravating the challenges of the Great Depression.²⁶ The gold standard countries in 1929 and the amount held per head of the population in pounds sterling was as follows:

Table 1: The Distribution of Gold Standard by Countries

1	Argentina	8.3 per head
2	France	8.0 per head
3	United State	6.6 per head
4	Great Britain	3.2 per head
5	Australia	2.5 per head

Source: Adopted (Modified) T.H. Laby, “The Causes of the Economic Depression”, in *The Australian Quarterly* (Vol. 3, No.9, 2014), 55.

Table 1 above depicts some discrepancies noticed in the distribution of the gold standard. This distribution has aggravated the scenario that propelled the Great Depression which has affected the economy and society of the United States and even beyond. Out of the five countries presented statistically, Australia had the lowest value of 2.5 per head while Great Britain had 3.2 per head. The third lowest country was the US with 6.6. Argentina had the highest distribution of 8.3 while France had the second highest share value of 8.0 respectively.

Decreased international lending and tariffs; due in part to the comparatively high-interest rates in the United States during the late 1920s, U.S. banks stopped lending to other nations even while the U.S. economy was still growing. In several borrowing nations, especially Brazil, Argentina, and Germany, whose economies started to fall long before the US Great Depression officially began, the decline had a contractionary effect. American agricultural interests, however, pushed Congress to enact extra levies on agricultural imports as a result of overproduction and heightened competition from European and other agricultural producers. Ultimately, the Smoot-Hawley Tariff Act (1930), a comprehensive piece of legislation, was passed by Congress. It levied high taxes (on average 20 percent) on a variety of industrial and agricultural goods. Naturally, the law sparked retaliatory actions from several other nations, which together had the effect of lowering output in many nations and decreasing international commerce.²⁷

Government Policies; according to Thomas A. Firey, the Great Depression was also exacerbated by acts taken by the US government. Increased unemployment was brought on by laws and regulations designed to maintain high pay even though millions of people were unemployed, and consumers suffered from a steep increase in income taxes.²⁸ The Glass-Steagall Act made deposit banks, which

²⁶ Thomas Howell Laby, “The Causes of the Economic Depression”, in *The Australian Quarterly* (Vol. 3, No.9, 2014), 55.

²⁷ Thomas A. Firey, “The Magic of Money and the Fed Dilemma,” *Herald-Mail* (Hagerstown, MD), July 31, 2013

²⁸ Thomas Howell Laby, “The Causes of the Economic,

were more unstable than universal banks, the only places where customers could invest, save, and purchase insurance. It also prohibited “universal” banks.²⁹ In addition to harming the economy during the Depression, these and other government initiatives had a lasting negative impact, leading to the second-worst economic catastrophe in American history, stagflation in the 1970s.

Even in the contemporary era, the US grinds through yet another year of sluggish “economic recovery”, some politicians and pundits advocate for further government intervention in the economy. People expect a miracle worker to come along and save the day after things have been so awful for so long in the economy. However, the government was complicit in the first two of the biggest economic crises in the country's history and happily supported the third, encouraging financiers to lend money to even riskier borrowers as they made significant investments in the housing bubble of the 2000s.³⁰

Economic Effects of the Great Depression in the United States

Farming and trading; on the one hand, wheat farmers in Australia, Canada, and the United States produce enormous harvests of wheat that they are unable to dispose of by using machinery, artificial fertilizers, and prolific wheat varieties that have been found through research by Feyrer and others. We find out that some of these farmers won't have enough food or clothes for the next harvest, that they can't afford the fertilizers required for the next crop, and that they can't pay enough for train and shipping freight.³¹ Conversely, we witness nations that generate the goods farmers need struggling to find a market for their goods, leaving their labour force unemployed. Similarly, an online learning environment known as *Iowa Pathways* disclosed that:

In the early 1930 prices dropped so low that many farmers went bankrupt and lost their farms. In some cases, the price of a bushel of corn fell just eight or ten cents. Some farm families began burning corn rather than coal in their stoves because corn was cheaper. Sometimes, the countryside is small like popcorn from all the corn burning in the kitchen stoves.³²

The United States, while having a large portion of the world's natural and financial resources, is not an independent country. For example, its automobile industry has reduced its output due to the collapse of its outside market.³³ The manufacture of petro serves as a powerful example of contemporary economic trends. The oil firms themselves frequently forecast that the world's oil supplies would run out early during the war. Up until recently, the main producing nations—Australia, New Zealand, and Brazil—could not

²⁹ Eugene N. White. “Before the Glass-Steagall Act: An Analysis of the Investment Banking Activities of National Banks”, in *Explorations in Economic History* 23(1): 33–55.

³⁰ Gary Richardson. “Bank Distress during the Great Depression: The Illiquidity–Insolvency Debate Revisited.” *Explorations in Economic History* 44(4): 586–607.

³¹ James Feyrer, “Trade and Income - Exploiting Time Series in Geography” (NBER Working Paper No. 14910, 2009).

³² *Iowa Pathways*, “The Great Depression Hits Farms and Cities in the 1930s” (Online Learning Platform, accessed, January 05, 2024).

³³ Thomas Howell Laby, “The Causes of the Economic,

swap their petroleum products for American gasoline, which led to a sharp rise in gasoline use. Despite rising demand, the forecast of the depletion of petroleum reserves has been refuted by the combination of science and entrepreneurship. The United States saw a decrease in gasoline prices in 1930 as a result of the finding of several new oil wells through geophysical prospecting and the development of superior distillation techniques. Gas was being transported to British ports at a little over 4d. per gallon. The increase in production is not limited to the commodities previously mentioned; it also includes wool, cotton, silk, maize, oats, metals, meat, fruits, coffee, and all other items produced in large quantities using readily available raw materials. Of course, there is one very significant exception: the output of gold was not rising.³⁴

There was a high level of unemployment emanating from the Great Depression. In 1933, when the Depression was at its worst, 12,830,000 individuals, or 24.9% of the labour force, were jobless.³⁵ Farmers lost their fields and houses to foreclosure as a result of sharp declines in agricultural commodity prices, even though they were not officially included in the unemployment statistics. Families broke apart or moved away from their homes in pursuit of employment as a result of the dislocation of rural communities and the American labour force. All around the country, "Hooverilles," or shantytowns made of leftover materials like packing crates and abandoned automobiles, proliferated. People in the Great Plains region where dust storms and drought exacerbated the consequences of the Depression, simply left their farms behind and travelled to California in search of the "land of milk and honey". Riding the trains as hobos in search of jobs were groups of young unemployed people whose families could no longer support them. The jobless people in America were moving, but they had nowhere to go that provided respite from the Great Depression.³⁶ To corroborate the above, Robert J. Samuelson commenting on this matter emphasised that:

The economy presents turmoil resembles the Great Depression more than anything since. As this is written, Europe is sinking into recession. The US, unemployment stayed above nine percent for 21 consecutive months, and then another seven after short period of slightly below that level. The long previous stretch was 19 months, in the early 1980s.³⁷

The above material depicts the extent of the damages done by the Great Depression. It has shown that and the period it has occurred. Deducing from the above, it would be an error to state that the US economy and society were traumatised. Both the GDP deflation and unemployment were on the increase while the stock market prices woefully failed as attested by Table 2 below.

³⁴ Thomas Howell Laby, "The Causes of the Economic,

³⁵ Franklin D. Roosevelt Presidential Library and Museum (available at <https://www.fdrlibrary.org/great-depression-facts> (Accessed on January 09, 2024).

³⁶ Franklin D. Roosevelt Presidential Library,

³⁷ Robert J. Samuelson, "Revisiting the Great Depression, 36-43.

Table 2: The Great Depression showing Real GDP, GDP Deflator, Unemployment, and Stock Market Price in the United State

Year	Real GDP	GDP Deflator	Unemployment (%)	Stock Market Price
1929	100.0	100.0	2.9	100.0
1930	91.4	96.4	8.9	69.4
1931	85.6	86.3	15.6	35.8
1932	74.4	76.2	22.9	30.8
1933	73.4	74.2	20.9	46.2
1934	81.3	78.4	16.2	45.2
1935	88.6	97.9	14.4	63.1
1936	100.0	80.7	10.0	79.8
1937	105.3	84.1	9.2	50.5
1938	101.6	81.7	12.5	61.7

Source: Adopted (Modified) Nicholas Crafts and Peter Fearon, “Lessons from the 1930s Great Depression”, in *Oxford Review of Economic Policy* (Vol. 26, No.3, 2010), 287.

Table 2 above shows that the Great Depression hit the United States economy. There was a high reduction in employment opportunities especially from 1929 to 1939. This is an implication that the citizens and inhabitants suffered the critical challenges accompanying unemployment. Besides, there was deflation in the real GDP in 1932 and 1933. The stock market prices became dismal and unattractive, especially between 1932 and 1933.

Another obvious consequence was a significant rethinking of macroeconomics, which the Anglo-American world quickly adopted with implications for policy-making. While these still need to be addressed, the primary shift was the general acceptance that the pursuit of a balanced budget would not be overcome, powerfully requiring much higher levels of federal spending to fine-tune the economy through Keynesian demand management. After the war, the UK saw activist government action to prevent, which by the 1950s and 1960s had become the standard and significantly influential in a way that was unimaginable in the early 1930s.³⁸

The macroeconomic dilemma's framework phrases also carried over from the 1930s. The switch to controls proved to be permanent; in the majority of nations, the years during the Bretton Woods Compromise, when exchange rates were once again pegged, were marked by extremely low levels of domestic savings and investment in current accounts, as well as the protection provided by allowing

³⁸ Nicholars Crafts and Peter Fearon, “Lessons from the 1930s Great Depression”, in *Oxford Review of Economic Policy* (Vol. 26, No.3, 2010), 287.

independent monetary policy instead of the limits on globalization that domestic politics demanded during the 1930s fiasco.³⁹

The 1930s crisis undoubtedly played a significant role in the enormous rise in social transfers that marked the OECD nations in the 50 years between 1930 and 1980. During that period, the median GDP percentage increased from an astonishingly low 1.66 to 20.09 percent.⁴⁰ The tale shouldn't be oversimplified in this case either because some other reasons, such as population aging, shifting income distribution patterns, and increasing wealth, were also important. Nevertheless, Wallis sees a fundamental shift in terms of fiscal federalism as the New Deal succeeded in establishing regulations that supported the political acceptability of inter-state transfers. This makes the "defining moment" hypothesis for the United States perhaps most persuasive when it comes to federal social insurance schemes.⁴¹

Microeconomic policy was also greatly impacted by the Great Depression; Hannah and Temin argue that the immediate result was a significant turn away from the capitalist free market and a shift in focus toward government interventions to address market imperfections.⁴² This suggests that regulation and, in the majority of OECD nations, state ownership will play a bigger role. Without a doubt, the immediate result was a significant decline in the level of competition in product markets, which included the emergence of cartels supported by the government and the anti-competitive consequences of protectionism. In the UK, the decline in competitiveness proved to be far more widespread and sustained than in the US.⁴³

Lastly, it should be mentioned that it took a long time for global trade to recover to its pre-Depression levels following World War II. It appeared as of the late 1930s that the rise in trade expenses during the 1930s had 'permanently' decreased the overall trade (exports and imports) to income ratios for the advanced nations by around thirty percent. Following in the footsteps of Frankel and Romer's research on the impact of trade on the level of income allows for impacts on capital stock and TFP (rather than welfare triangles), and it suggests that the long-term effect would have been to reduce the level of GDP per person by roughly 15 percent.⁴⁴

Efforts of the United States Government in Fighting the Great Depression

Franklin Delano Roosevelt put his New Great Deal initiatives into action. Many of the elderly in the country now have a "safety net" thanks to the Social Security and Work Progress Administration, which

³⁹ Maurice Obstfeld and Alan M. Taylor, "The Great Depression as a Watershed: International Capital Mobility over the Long Run", in Michael D. Bordo, Claudia Goldin and Eugene N. White (eds), *The Defining Moment. The Great Depression and the American Economy in the Twentieth Century* (Chicago: University of Chicago Press, 1998), 353.

⁴⁰ Peter H. Lindert, *Growing Public*, (Cambridge: Cambridge University, 2004),

⁴¹ Robert J. Samuelson, "Revisiting the Great Depression, 36-43.

⁴² Peter Temin (1976), *Did Monetary Forces Cause the Great Depression?* Reviewed Article by Hyman P. Minsky (New York: Norton)

⁴³ Francisco Coman, Broadberry, S. N., *The British Economy between the Wars: A Microeconomic Survey* (Oxford: Wiley, 1992), Blackwell. - Crafts, N. F. R., "Britain's Productivity Gap in the 1930s: Some Neglected Factors", *Journal of Economic History* (52, 1992), 531-538.

⁴⁴ Nicholas Crafts and Peter Fearon, "Lessons from the 1930s,

also employs jobless people to build public infrastructure. Farm prices were stabilized by price subsidies, and the rights of labourers to form unions and go on strike were reinforced by laws. The accounts of depositors protected by the government restored trust in the banking sector. Roosevelt was criticized by some conservatives for leading the nation toward socialism despite the New Deal's widespread support. However, it did not address the underlying cause of the 16 percent economic crisis in the US.⁴⁵

A law to support farmers was enacted by the US federal government. The issue was surplus; farmers were producing too much, which was lowering the market price. The Agricultural Adjustment Act (AAA) of 1933 was approved by the government and placed restrictions on the size of crops and cattle that farmers could raise, under Secretary of Agriculture Henry Wallace. Farmers who consented to restrict their output received financial assistance.⁴⁶

The majority of farmers immediately enrolled, and before long, government cheques may be seen arriving in rural mail boxes to aid with paying taxes or bank loans (The University of Iowa). In terms of analysis, the AAA was effective in raising agricultural prices; the price of national cotton rose from 6.52 cents per pound in 1932 to 12.36 cents per pound in 1936. From 1.55 cents per pound in 1932 to 3.72 cents per pound in 1936, the price of peanuts rose. The profits were not split equally between sharecroppers and landowners. The sharecroppers lost their jobs. Furthermore, a few landowners purchased modern, effective agricultural equipment with incentives. Because a single tractor can do the tasks of several labourers more efficiently, this made the sharecroppers' situation more precarious. But when the AAA was overturned by the Supreme Court in 1936, it became unlawful to charge one group—the processors—to compensate another—the farmers. Notwithstanding this defeat, the AAA of 1933 paved the way for government crop insurance and subsidies for almost a century.⁴⁷

Men were also employed by the Work Progress Administration (WPA) to work on various projects like public buildings, roads, bridges, parks, and swimming pools. The Civilian Conservation Corps recruited youths in their teens (CCC). They received clothing, free food, and living quarters in barracks. Their little earnings were returned to their family to support them. To conserve and enhance natural areas, the CCC boys carried out various initiatives like planting trees and creating parks. About 8.5 million individuals received work via the WPA. More than 650,000 kilometers of roads, 125,000 public buildings, 75,000 bridges, and 8,000 parks were the result of its construction initiatives. Federal Writers' Project, Federal Theatre Project, and Federal Art Project were also housed under its auspices. The national conservation job that the CCC provided was mostly for young single men. Tree planting, creating flood barriers, putting out forest fires, and maintaining forest roads and trails were among the projects.⁴⁸

The National Recovery Administration (NRA) was given the power to assist in creating industrial rules that regulate collective bargaining, salaries, hours worked, child labour, and trade practices to stimulate the industrial sector. A further goal of the New Deal was to control the country's financial system to

⁴⁵ Valerie Hansen and Kenneth R. Curtis, *Voyages in World History*,

⁴⁶ Richard H. Pells and Christiana D. Romer, "Great Depression Economy",

⁴⁷ Richard H. Pells and Christiana D. Romer, "Great Depression Economy",

⁴⁸ Richard H. Pells and Christiana D. Romer, "Great Depression Economy",

prevent another 1929 stock market crisis and the ensuing catastrophic bank bankruptcies. The Securities and Exchange Commission (SEC) was founded in 1934 to restore investor confidence in the stock market by putting an end to the deceptive sales and practices as well as stock manipulations that caused the stock market crash. The Federal Deposit Insurance Corporation (FDIC) provided government insurance for bank deposits in member banks of the Federal Reserve System.⁴⁹

The Tennessee Valley Authority (TVA) was founded in 1933 with the goals of reducing flooding, enhancing navigation, raising farmer living conditions, and generating electricity along the Tennessee River and its tributaries. The Tennessee River had recurrent episodes of intense flooding, and the middle course of the river was impassable due to a sequence of shoals near Muscle Shoals, Alabama. A statute creating the TVA was approved by the US Congress in 1933, uniting all of the regional government agencies' operations under one administrative umbrella. After that, there was a huge push to develop dams, hydroelectric generating stations, and flood control projects. The TVA is notable as a model for natural resource planning since it combines a wide variety of particular authorities with a feeling of social duty to the area. Generally speaking, its authority is confined to the Tennessee River drainage basin, which includes portions of seven states: Tennessee, Virginia, Georgia, Alabama, Mississippi, North Carolina, and Kentucky.⁵⁰ A board of three directors, chosen by the president with the Senate's advice and permission, oversees the TVA, a public company. When the TVA was first established, its constitutionality was contested, but the Supreme Court affirmed it in the 1936 case of *Aswander v. Tennessee Valley Authority* and other rulings. With all of these benefits, the projects significantly expanded river traffic and produced inexpensive power, which sparked the industrial growth of the hitherto chronically weak area economy.⁵¹

The End of the Great Depression

The end of the Great Depression is a contested matter. Numerous studies have examined and rejected the theory that the Depression's recovery was primarily due to aggregate demand stimulation. For example, Cary E. Brown contended that fiscal policy was irrelevant by utilizing a traditional Keynesian multiplier model and the idea of discretionary government expenditure. Fiscal policy... seems to have been an unsuccessful recovery device in the thirties—not because it did not work, but because it was not tried, was his widely quoted conclusion.⁵² Milton Friedman and Anna Schwartz emphasized that the Federal Reserve System made virtually no effort to change the amount of powerful money during the time under discussion (1933–1941), proving that Federal Reserve policy was not the basis of the recovery either.⁵³ Although Friedman and Schwartz were undoubtedly aware that other factors contributed to an increase in the money supply in the middle of the 1930s, it seems that their focus was more on the part that the Federal Reserve's inaction played in starting and extending the Great Depression than it was on estimating the significance of monetary expansion in fostering recovery.

⁴⁹ Richard H. Pells and Christiana D. Romer, “Great Depression Economy”,

⁵⁰ Richard H. Pells and Christiana D. Romer, “Great Depression Economy”,

⁵¹ Richard H. Pells and Christiana D. Romer, “Great Depression Economy”,

⁵² Cary E. Brown, “Fiscal Policy in the Thirties: A Reappraisal”, in *American Economy*, (Review, 46, 1956), 863-66.

⁵³ Michael T. Belongia and Peter N. Trelan, “Money and Output: Friedman and Schwartz Revisited”, in *Journal of Money* (Vol. 46, No.6, 2016), 1223-1266.

The authors of more recent research may have concluded that traditional aggregate-demand stimulation could not have impacted the Great Depression recovery because of the early studies' emphasis on governmental delay and ineffectiveness. For instance, Ben Bernanke and Martin Parkinson were astounded by the intensity of the rebound when they examined the apparent reversal of employment to its trend level in the 1930s. Nonetheless, they felt that the New Deal is best understood as having "paved the way" for a spontaneous rebound rather than as the recovery's primary driver.⁵⁴ Consequently, they contended that the interwar economy's trend reversal is proof of a powerful self-corrective force. The same concept was expressed by Bradford J. De Long and Lawrence Summers: the substantial degree of mean reversion by 1941 is evidence that shocks to output are transitory. They concluded that "it is hard to attribute any of the pre-1942 catch-up of the economy to the war, since the only aggregate-demand boost they believed may have aided in the recovery was World War II."⁵⁵

Contrary to popular belief, there is reason to think that developments in aggregate demand, particularly monetary adjustments, had a significant role in accelerating the Great Depression's recovery. This can be attributed to the straightforward but sometimes disregarded fact that between 1933 and 1937, the money supply (measured as M1) increased at an average annual rate of over 10 percent, and in the early 1940s, this pace increased even more. There had never been significant and sustained money growth rates in American economic history. According to Christiana D. Romer's simulations, these monetary adjustments were vital to the recovery because they used policy multipliers generated from macroeconomic models and policy multipliers based on the experiences of 1921 and 1938.⁵⁶ Romer maintains that if the money supply had expanded at its historical normal rate, the real gross domestic product would have decreased by almost 25 percent in 1937 and almost 50 percent in 1942 compared to what it was. Analogous fiscal policy models indicate that adjustments to the public budget surplus were not very important in causing the rebound.⁵⁷ Not only did the massive monetary expansion of the mid-and late 1930s have an estimated impact, but gold inflows, which resulted from 1933 devaluation and capital flight from Europe due to political unrest after 1934, also contributed significantly to the increase in the money supply. Romer asserts that the current real interest rate indicates that real interest rates dropped sharply in 1933 and were low or negative for the majority of the 1930s' second half, coinciding with this gold influx. A robust increase in interest-sensitive spending is strongly connected with the low real interest rates.⁵⁸ Therefore; it is conceivable that traditional interest-rate transmission channels were being used by expansionary monetary trends.

It should come as no surprise that monetary growth and devaluations led to global recovery, as both monetary contraction and the gold standard played major roles in the Great Depression. There is a clear relationship between the periods when nations saw fresh production growth and the times when they

⁵⁴ Ben Bernanke and Martin Parkinson, "Unemployment, Inflation, and Wages in the American Depression: Are there Lessons for Europe", *The American Economic Review* (Vol.19, No.2, 1989), 212.

⁵⁵ Bradford J. De Long and Lawrence Summers, "How Does Macroeconomic Policy Affect Output?" (available at https://www.brookings.edu/wp-content/uploads/1988/06/1988b_bpea_delong_summers_mankiw_romer.pdf p. 467, accessed on January 10, 2024).

⁵⁶ Christiana D. Romer, "What Ended the Great Depression?" in *The Journal of Economic History* (Vol. 52, No.4), 758-800.

⁵⁷ Christiana D. Romer, "What Ended the Great Depression?"

⁵⁸ Christiana D. Romer, "What Ended the Great Depression?"

abandoned the gold standard or significantly depreciated their currencies.⁵⁹ In contrast to the United States, which did not depreciate its currency until 1933, Britain, which was driven off the gold standard in September 1931, recovered very quickly. Similar to this, Argentina and Brazil, two Latin American nations that started devaluing in 1929, went through comparatively small downturns before mostly recovering by 1935. Conversely, the "Gold Bloc" nations of Belgium and France, which were especially devoted to the gold standard and sluggish to depreciate, nonetheless had industrial production in 1935 that was significantly lower than that of 1929.⁶⁰

However, output was not immediately increased by devaluation. Instead, it made it possible for nations to increase their money supply without worrying about fluctuations in gold prices or exchange rates. More nations recovered when they made better use of this freedom. Particularly striking was the monetary growth that started in the US in early 1933. The money supply in the United States rose by around 42 percent from 1933 and 1937. This monetary boom was mostly the result of a significant gold inflow into the US, which was partly brought on by the escalating political unrest in Europe before World War II.⁶¹ Because monetary growth reduced interest rates and increased credit availability, expenditure was boosted. Additionally, it raised expectations of inflation rather than deflation, providing prospective borrowers more assurance that, should they decide to borrow money, their earnings and profits would be enough to pay back their loans. The fact that consumer and corporate spending increased significantly before consumer expenditure on services on interest-sensitive goods like automobiles, trucks, and machines is one indication that monetary expansion fuelled the American recovery by promoting borrowing.⁶²

In the US, fiscal policy was mostly ineffective in promoting economic recovery. The Revenue Act of 1932 significantly raised American tax rates to balance the federal budget, which further deterred spending and handed the economy a contractionary blow. Early in 1933, Franklin D. Roosevelt launched the New Deal, a series of new federal initiatives designed to spur economic recovery.⁶³ For instance, the Tennessee Valley Authority (TVA) built dams and power plants in a particularly impoverished area, while the Works Progress Administration (WPA) engaged jobless people to work on government construction projects.

Nonetheless, in comparison to the size of the economy, the real increases in government expenditure and the budget deficit were minimal. When state government budget deficits are taken into account, this becomes much more evident because those deficits decreased at the same time as the federal deficit increased. Because of this, the New Deal's increased expenditure initiatives generated less direct economic growth. It's still unclear if they may have improved company and consumer sentiment despite this.⁶⁴

⁵⁹ Christiana D. Romer, "What Ended the Great Depression?"

⁶⁰ Christiana D. Romer, "What Ended the Great Depression?"

⁶¹ Nicholans Crafts and Peter Fearon, "Lessons from the 1930s,"

⁶² Robert J. Samuelson, "Revisiting the Great Depression, 36-43.

⁶³ Richard H. Pells and Christiana D. Romer, "Great Depression Economy,

⁶⁴ Richard H. Pells and Christiana D. Romer, "Great Depression Economy,

CONCLUSION

The focus of this study was the Great Depression that occurred between 1929 and 1939. It has been admitted that the Great Depression startled the whole globe. For a thorough examination of the phenomenon, this research, however, limited itself to the United States and the economic facets of the Great Depression. By doing this, the research tried to draw a conceptual contrast between the Great Depression and economic recession giving examples of the effects that both. However, it is noted that the Great Depression's repercussions outweigh those of the recession. The causes of the Great Depression have been studied in detail, including the 1929 stock market crash, government policies, banking panics, money contraction, the gold standard, and others. The Depression's economic impact in the United States have been discussed, with particular attention paid to the decline in trade article prices, the high rate of unemployment, the substantial re-evaluation of macroeconomics, and the slow rate of global trade recovery. The US government, under the leadership of Franklin Delano Roosevelt, implemented many programs, including the TVA, the AAA, and the CCA, to lessen the negative effects of the Great Depression. Regrettably, the unique difficulties that each of the aforementioned programs faced caused the US recovery process to be delayed. Nonetheless, the US emerged from the muck in 1939 with some knock-on consequences that lingered for a long period.

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