

Topic 08: The Global Economic Crisis (The Great Depression of 1929)

Economic crises are considered an integral part of the nature of the capitalist system. Generally, they begin with an increase in production resulting from the capitalist's goal of increasing his profit. This leads to a decline in the prices of goods offered because supply exceeds demand, ultimately resulting in a wave of successive bankruptcies. These bankruptcies lead to a shortage of purchasing power, unemployment, and other effects, causing the collapse of those companies' shares in global stock markets. Thus, crises occur.

First: Economic Crises:

1. The Concept of Economic Crises:

Since the 19th century and the emergence of mechanized industry, economic crises began to shape the economies of capitalist countries. The main cause of crises is overproduction, where an imbalance arises between the quantity produced and the purchasing power of consumers. This is due to the contradiction between the collective nature of production and the private ownership of production factors, and the nature of capitalist production which aims solely at achieving maximum profit. In reality, production becomes directed towards the class capable of purchasing on one hand, while on the other hand, production of goods that do not yield profit—even if society greatly needs them—ceases. This leads to social imbalance and the occurrence of a crisis.

2. Economic Cycles:

Capitalist production during the 19th century was characterized by the phenomenon of successive economic cycles, differing in timing and duration. They pass through the following stages:

A. Recovery Stage: The general price level tends to stabilize, economic activity increases slowly, and interest rates and commodity inventories decrease.

B. Boom or Prosperity Stage: Prices begin to rise, encouraging producing firms to increase their production volume, leading to an increase in income and employment.

C. Crisis Stage: Prices begin to fall, production volume increasingly contracts, unemployment appears, inventories grow, commercial fear begins to spread, and interest rates rise.

D. Depression Stage: Prices fall due to trade stagnation and weak commercial activity, and unemployment becomes widespread.

According to scientists who studied this phenomenon, the capitalist system was exposed to such crises at a rate of approximately one every seven years. Despite differing causes, misery, unemployment, and economic deterioration were the prominent features of the free economy during a crisis period. It was observed that after the Great Crisis of 1929, which so disturbed the capitalist system that it nearly collapsed completely and finally, these periodic crises that afflicted the system diminished in intensity and severity. This was due to governmental intervention in the economic sector, which continued to expand and exert control to prevent the occurrence of such crises.

Secondly: The Emergence of the Depression and Its Causes:

Signs of the crisis began to appear in the United States of America, as the production rate began to deteriorate since 1927. This was because its foreign investment policy lacked consistency, due to the inexperience of American investors and the absence of an American commercial fleet like the one upon which British foreign investment experience relied. This paved the way for the spark of the global crisis to ignite in the United States.

The depression arises from the occurrence of the following:

- Businessmen's expectations improve, and demand for purchasing securities increases, leading to a rise in their prices.
- Banks expand in granting credit to finance speculative operations in stock exchanges.

- Companies issue new bonds and may resort to borrowing.
- Incomes increase, and demand for consumption rises, accompanied by an increase in demand for capital goods.
- This increased activity is reflected in the stock exchange, so securities prices rise to a point where no further increase is possible.
- At this point, banks begin to reduce credit opportunities and loans, then start demanding their lent funds, fearing that depositors will begin withdrawing their money.
- The increased demand for capital goods leads to a rise in their prices, accompanied by a shortage in demand and a large surplus in their production. Production then begins to contract, which is reflected in the stock exchange as prices fall, and the depression stage begins.

Among the most important events triggering the crisis in October 1929 was the Bank of England's decision to raise the discount rate, which led to the withdrawal of some European capital.

Specifically in America, a major deterioration occurred in trading prices on the New York Stock Exchange. Those conditions were reflected in basic industries such as the automobile industry, accompanied by a significant decline in demand for manufactured goods. Thus, production and prices began a continuous deterioration, unemployment spread, and the number of unemployed workers in 1929 rose to between 30 and 40 million.

Generally, the causes of the 1929 depression can be attributed to:

- **The collapse of the securities stock exchange in New York in October 1929.** When prices rose to unprecedented levels, experts began to grow pessimistic, resulting in a series of actions that increased pessimism and a rush to sell securities, leading to their faster collapse.
- **Some attribute the cause of the depression to the exhaustion of investment opportunities in 1929,** as economic activity had peaked and found no other field for investment, so the crisis began and the depression set in.
- **Insufficient Consumption:** Some say that insufficient consumption was an important cause of the depression. However, insufficient consumption leads to a depression in consumer goods industries and thus a reduction in their investments, which of course affects capital goods industries.
- **Among the causes of the depression were the contraction of trade and the decline in the volume of foreign investment.** Governments of various countries placed obstacles in the way of foreign trade, and restrictions were imposed particularly on imports of foodstuffs and capital goods.

Thirdly: Results of the Depression Crisis and Policies to Limit It:

1. Results of the Depression Crisis:

The economic crisis was accompanied by sharp fluctuations in currency exchange rates, resulting in the collapse of the gold standard in most countries. At the same time, the purchasing power of most currencies deteriorated due to increasing deficits in the general budget and balance of payments, and a decline in the volume of official gold reserves.

In England, the convertibility of paper money into gold was suspended on September 21, 1931, although this conversion was in the form of bullion. This resulted in a deterioration in the value of the Sterling and a subsequent deterioration in the values of currencies linked to it. In the United States, the abolition of the gold standard in 1933 led to increased demand for converting paper money into gold, as well as a decline in bank liquidity in addition to a decrease in gold reserves. This crisis caused the values of major international currencies to decline by about 50% and 84% compared to pre-crisis levels.

The long-term international credit crisis also resulted in 25 countries, including Germany and Austria, ceasing to repay their foreign loans.

2. Policies to Limit the Crisis:

Economic policies in various countries became active to confront the effects of the crisis, push the wheel of growth, and reduce the severity of unemployment. These national policies took various forms:

- **In Germany and Japan**, economic policies relied on inflationary government spending and increasing demand for military purposes. Thanks to this, the volume of industrial production in Germany in 1937 rose to 121% of what it was in 1932.
- **In Britain**, quick measures for economic recovery were taken that did not rely on the intensity of public spending but on stimulating credit with simple terms, which helped the private sector to engage in rapid activity. Production in 1937 increased by 71% compared to 1932.

3. Results of the 1929 Depression Crisis:

In England, the convertibility of paper money into gold was suspended on September 21, 1931, although this conversion was in the form of bullion. This resulted in a deterioration in the value of the Sterling and a subsequent deterioration in the values of currencies linked to it. In the United States, the abolition of the gold standard in 1933 led to increased demand for converting paper money into gold, as well as a decline in bank liquidity in addition to a decrease in gold reserves. This crisis caused the values of major international currencies to decline by about 50% and 84% compared to pre-crisis levels. The long-term international credit crisis also resulted in 25 countries, including Germany and Austria, ceasing to repay their foreign loans.