Causes of the Great Depression

The Great Depression began around 1929 and lasted till the mid-1930s**.** During this period most parts of the world experienced catastrophic declines in production, employment, incomes and trade. The exact timing and impact of the depression varied across countries. But in general, agricultural regions and communities were the worst affected. This was because the fall in agricultural prices was greater and more prolonged than that of the prices of industrial goods.

The depression was caused by a combination of several factors.

(i) Agricultural overproduction remained a problem. This was made worse by falling agricultural prices. As prices slumped and agricultural incomes declined, farmers tried to expand production and bring a larger volume of produce to the market to maintain their overall income. This worsened the glut in the market, pushing down prices even further. Farm produce rotted for a lack of buyers.

(ii) In the mid-1920s, many countries financed their investments through loans from the US. While it was often extremely easy to raise loans in the US when the going was good, US overseas lenders panicked at the first sign of trouble. In the first half of 1928, US overseas loans amounted to over $1 billion. A year later it was one quarter of that amount. Countries that depended crucially on US loans now faced an acute crisis.

(iii) The withdrawal of US loans affected much of the rest of the world, though in different ways. In Europe it led to the failure of some major banks and the collapse of currencies such as the British pound sterling. In Latin America and elsewhere it intensified the slump in agricultural and raw material prices. The US attempt to protect its economy in the depression by doubling import duties also dealt another severe blow to world trade.

(iv) The US was also the industrial country most severely affected by the depression. With the fall in prices and the prospect of a depression, US banks had also slashed domestic lending and called back loans. Farms could not sell their harvests, households were ruined, and businesses collapsed. Faced with falling incomes, many households in the US could not repay what they had borrowed, and were forced to give up their homes, cars and other consumer durables.

As unemployment soared, people trudged long distances looking for any work they could find. Ultimately, the US banking system itself collapsed.

Problem Solving Assessment [PSA]

Read the given extract and answer the following questions.

One important feature of the US economy of the 1920s was mass production. The move towards mass production had begun in the late nineteenth century, but in the 1920s it became a characteristic feature of industrial production in the US. A well-known pioneer of mass production was the car manufacturer Henry Ford. He adapted the assembly line of a Chicago slaughterhouse (in which slaughtered animals were picked apart by butchers as they came down a conveyor belt) to his new car plant in Detroit. He realised that the 'assembly line' method would allow a faster and cheaper way of producing vehicles. The assembly line forced workers to repeat a single task mechanically and continuously – such as fitting a particular part to the car – at a pace dictated by the conveyor belt. This was a way of increasing the output per worker by speeding up the pace of work. Standing in front of a conveyor belt no worker could afford to delay the motions, take a break, or even have a friendly word with a workmate. As a result, Henry Ford's cars came off the assembly line at three-minute intervals, a speed much faster than that achieved by previous methods. The T Model Ford was the world's first mass-produced car.

At first workers at the Ford factory were unable to cope with the stress of working on assembly lines in which they could not control the pace of work. So they quit in large numbers. In desperation Ford doubled the daily wage to $5 in January 1914. At the same time he banned trade unions from operating in his plants.

Henry Ford recovered the high wage by repeatedly speeding up the production line and forcing workers to work even harder. So much so, he would soon describe his decision to double the daily wage as the 'best cost-cutting decision' he had ever made.

Fordist industrial practices soon spread in the US. They were also widely copied in Europe in the 1920s. Mass production lowered costs and prices of engineered goods. Thanks to higher wages, more workers could now afford to purchase durable consumer goods such as cars. Car production in the US rose from 2 million in 1919 to more than 5 million in 1929.

Tick (3) the right answer

1. What was the characteristic feature of US industrial economy in the 1920s?

(a) High employment
(b) Soaring prices
(c) Mass production

2. Who was Henry Ford?
(a) Engineer
(b) Doctor
(c) Entrepreneur / car manufacturer

3. Adoption of which method of production by Henry Ford led to mass production?
(a) Keep-in-line (b) Assembly line
(c) Following line

4. Which was the world's first mass-produced car?
(a) Jaguar (b) Mercedes
(c) T-Model Ford

5. What was the 'best cost-cutting decision' made by Henry Ford?
(a) Reducing salaries of workers
(b) Doubling the daily wage of workers
(c) Easing out workers in large numbers

6. What was the general impact of mass production?
(a) Lowering costs of goods
(b) Lowering prices of goods
(c) Both of these

7. Car production in the US rose from 2 million in 1919 to ________ million in 1929.
(a) 10 million
(b) 25 million
(c) Over 5 million

❖❖❖