

# The Great Depression – and the lessons learned

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August 2024

*The Great Depression, beginning in 1929, was the most profound economic downturns in modern history. It was a period marked by severe economic decline, mass unemployment, and significant shifts in global economic policies. The Great Depression did not only impact the United States, where it originated, but also reverberated throughout the world, causing widespread economic hardship and influencing global economic governance for decades to come. This essay will explore the causes of the Great Depression, its global economic impact, and the measures undertaken to remedy it.*

## Causes of the Great Depression

A combination of economic vulnerabilities and policy failures led to the Great Depression. One of the causes was the speculative bubble in the U.S. stock market during the 1920s. Driven by low-interest rates and speculative fever, investors increasingly bought stocks on margin—borrowing money to purchase shares. This speculative bubble was unsustainable leading to the market crash on October 29, 1929, that wiped out millions of investors, leading to a severe contraction in consumer spending and investment.

The stock market crash was only the immediate trigger; deeper structural weaknesses in the global economy contributed to the severity of the Depression. The U.S. economy was dependent on high consumer spending and investment, with insufficient income distribution and overproduction in key sectors like agriculture and manufacturing. Internationally, the global economy was fragile, with war debts from World War I, protectionist trade policies, and adherence to the gold standard exacerbating economic imbalances. The gold standard limited the ability of central banks to respond effectively to the crisis by restricting monetary policy flexibility.

## Global Economic Impact

The global impact of the Great Depression affected nearly every country leading to a decade of economic stagnation and social and widespread poverty. In the United States, the economy contracted by about 30%, and unemployment soared to 25%. The banking system faced widespread collapse, leading to the loss of savings and the destruction of credit. Internationally, the effects were equally dire. Europe, already weakened by World War I, saw its economies crumble as American loans dried up and trade barriers stifled economic activity.

The Depression also had profound social and political consequences. In many countries, the economic hardships led to the rise of Adolf Hitler and the Nazi Party, setting the stage for World War II. In the developing world, the Depression exacerbated existing inequalities and led to increased colonial exploitations.

## Interventions

In response to the Great Depression, governments around the world implemented a range of policies aimed at stabilizing their economies and preventing further collapse. In the United States, President Franklin D. Roosevelt's New Deal was the most significant response. The New Deal was a comprehensive series of programs and reforms designed to provide relief for the unemployed and reforms to stimulate economic recovery. Key initiatives included the

creation of Social Security, the establishment of public works programs, and the enactment of financial reforms.

Internationally, the abandonment of the gold standard allowed for more flexible exchange rate policies, enabling countries to pursue expansionary monetary policies. The economic instability of the 1930s also laid the groundwork for the creation of the Bretton Woods system after World War II, which established the International Monetary Fund (IMF) and the World Bank to promote global economic stability.

*The Great Depression was a pivotal event in global economic history, caused by a combination of speculative excesses, structural weaknesses, and policy failures. Its impact led to global economic hardship and significant political and social upheaval. However, the interventions employed also led to important changes in economic policy and governance. The New Deal in the United States and the eventual establishment of the Bretton Woods institutions laid the foundation for a more stable and prosperous global economy. The lessons learned from the Great Depression continue to influence economic policy-making to this day, underscoring the importance of effective government intervention in managing economic cycles.*

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## **References**

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