Università
Ca'Foscari
Venezia

Department of
Linguistics and
Comparative Cultural
Studies

Master's Degree in
Comparative
International Relations

Final Thesis

A comprehensive analysis of the Great Depression of 1930: Household debt impact and recovery of US economy

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Academic Year
2022 / 2023

Acknowledgment

First of all, I would like to thank my supervisor, Prof. Giovanni Favero for his huge support and guidance.

I would also like to take this opportunity to express my heartfelt appreciation to my family, fiancée, and friends, who have provided me with unwavering love, support, and encouragement throughout my academic journey. Their belief in me has been an endless source of inspiration, and I am grateful for their constant presence in my life. Without their support, I would not have been able to complete this thesis. Their unwavering faith in me and unconditional love have been the driving force behind my success. Thank you for being my pillars of strength and for always being there for me when I needed you the most

I dedicate the final thesis to my fiancée, Shovkat

Astratto

La Grande Depressione del 1929-1939 fu una grave crisi economica globale che provocò fallimenti bancari e alti livelli di disoccupazione. Sebbene siano state condotte ricerche approfondite sulle cause, gli effetti e la ripresa della Grande Depressione, molte domande rimangono senza risposta. La tesi di questo master si propone di affrontare l'impatto del debito delle famiglie sullo sviluppo e la ripresa della Grande Depressione negli Stati Uniti. La ricerca utilizzerà metodologie qualitative, inclusa una revisione della letteratura, per indagare la relazione tra debito familiare e crollo del mercato azionario del 1929, nonché l'effetto del debito familiare sulla ripresa dell'economia statunitense durante la Grande Depressione. Si prevede che i risultati dello studio contribuiranno in modo significativo alla nostra comprensione del ruolo del debito delle famiglie nella Grande Depressione del 1930 e offriranno spunti a politici ed economisti per affrontare la relazione tra debito delle famiglie e recessioni economiche in futuro.

Parole chiave: crisi, moneta, borsa, economia, inflazione

Abstract

The Great Depression of 1929-1939 was a major global economic crisis that resulted in bank failures and high levels of unemployment. While extensive research has been conducted on the causes, effects, and recovery of the Great Depression, many questions remain unanswered. This master's thesis aims to address the impact of household debt on the development and recovery of the Great Depression in the United States. The research will employ qualitative methodologies, including a literature review, to investigate the relationship between family debt and the 1929 stock market crash, as well as the effect of household debt on the recovery of the US economy during the Great Depression. The study's findings are expected to contribute significantly to our understanding of the role of family debt in the 1930 Great Depression and offer insights for policymakers and economists in addressing the relationship between household debt and economic downturns in the future.

Keywords: Crisis, money, stock, economy, inflation

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Introduction

From 1929 through 1939, the Great Depression was a significant worldwide economic catastrophe that lasted a decade. 1929's stock market crash signaled the beginning of the Great Depression, leading to widespread bank collapses and enormous job losses. This economic recession had far-reaching effects, not only in the United States but also globally. The Great Depression of 1930 continues to be one of the most extensively researched and examined economic disasters in history. Numerous issues regarding the causes, effects, and recovery of the Great Depression remain unsolved despite extensive investigation.

This master's thesis intends to contribute to the current body of knowledge by undertaking a thorough investigation of the Great Depression of 1930. This thesis will specifically examine the effect of household debt on the development and recovery of the Great Depression in the United States. The study will involve qualitative research methodologies, including a comprehensive literature review. This thesis seeks to answer the following research questions: What effect did family debt have on the beginning and recovery of the Great Depression of 1930 in the United States? What link existed between family debt and the 1929 stock market crash? How did household debt effect the recovery of the US economy during the Great Depression? What policy responses were made to the Great Depression?

This research is crucial because it will give a more comprehensive understanding of the significance of family debt in the 1930 Great Depression. Those interested in the history and causes of the Great Depression, as well as policymakers and economists, will be affected by the findings of this study. Furthermore, this research will provide policymakers and economists with useful insights into the relationship between household debt and the economy during future economic downturns. The literature review will examine the existing research on the Great Depression of 1930 and its causes, effects, and recovery. This will include study on the influence of household debt on the Great Depression, as well as research on other variables that contributed to the start and recovery of the Great Depression, such as monetary policy, government expenditure, and international commerce. In addition, the literature study will investigate the policy responses to the family debt crisis during the Great Depression, including the Federal Reserve's and other government agencies' roles.

Chapter 1: Anatomy of crises, The Emergence of the World Economic Crisis of 1930s and its General Effects on the World

1.1 Definitions, causes and Dimensions of Economic Crisis

If a situation is to be considered a crisis, then the fundamental aspects of the crisis must be understood. In order to speak of a crisis, there must have been some previously unanticipated or unforeseeable developments, and those changes must have had implications that would adversely affect both the state on the macro level, as well as enterprises and individuals on the micro level. A precarious situation is referred to as a crisis if it develops all of a sudden and without warning, because labeling as a crisis any issue that comes up throughout the course of the usual process is not the best course of action to take. In this regard, the crisis might be understood as a significant problem that arose out of the blue. Routine changes and challenges are not crises. One may argue that the fact that the crisis strikes at an unanticipated or unexpected time is the single most essential characteristic of the situation (Kirman, 2010: pp. 498-535).

The economic crisis can be understood as a loss of confidence that causes decision-making units in the markets for money, capital, labor, goods, and services to behave with extreme caution and generates a continuous deterioration in economic indicators. This loss of confidence is what pushes decision-making units in these markets to act with extreme caution. Uncertainty in the market drives up transaction costs, reduces the scope of economic agreement, and makes pre-existing economic problems impossible to solve (Mattick, 2020). The deterioration of the supply and demand balances of goods and services during the period of economic development can be defined as the economic crisis, which is one of the most important issues in the fields of economic study. The economic crisis is also defined as a negative event that causes the relations between all economic elements to be interrupted. In this regard, it is possible to state that the crisis unfolded over the course of some time and had a tight connection to the structure of the economy (Summers, 2000: pp. 1-16).

In terms of the industries that they have an impact on, economic crises may be split into two categories: real sector crises and financial sector crises. Crises in the real sector typically manifest themselves as large shifts in the market's output and employment levels. On the other hand, crises in the financial sector are market collapses that can have catastrophic repercussions on the actual sector of the economy and disrupt the effective running of the markets. Financial sector crises also have the potential to disrupt the effective functioning of the markets. It is feasible to divide the financial crises that take place on the markets of emerging nations into four distinct categories: money, banking, foreign debt, and systemic crisis (Bronner & De Hoog, 2012: pp. 1048-1069).

The places in which the economic crisis was initially observed became an experience for future economists. In the event that it projects a growing image by exerting influence not only on the commercial and financial sectors but also on the industrial sector, it may potentially cause a crisis in the international economy or financial crises can become international, without affecting the domestic industrial economy. In this scenario, negative expectations would guide the psychological inclinations and actions that people exhibit in society, which will ultimately result in the rapid development of the economic disaster.

According to the length of time they last, economic crises may be divided into two categories: short term and long term. The length of time that the impacts of crises linger after they have passed is directly proportional to two factors: the promptness with which steps are adopted to combat the crisis and the degree to which these measures are carried out. Any crisis that occurs in one area has the potential to spread to other affected industries. There are many different ways in which economic crises present themselves in the economy. Indicators of an economic crisis include a rapid decline in production, a sudden shift in the overall level of prices, an increase in interest rates, bankruptcies, a sudden increase in the unemployment rate, a decline in wages, a collapse in the stock market, fluctuations in financial markets, and speculative movements in the market (Stiglitz, 2009: pp. 281-296).

Even if it is challenging and fraught with sensitivity to attempt to define the process of an economic crisis, a single definition is not possible; yet, the crisis process must have some characteristics. The following characteristics can be included under this category: Because of the severity of the economic crisis, we need a period of profound and immediate reform. In order for these changes to take effect, the institutions and processes that are required for the proper functioning of the system in order for it to exist during the period of stability must either become inoperative or continue to be inoperable as they were before. When one does a lookback, they should come to the realization that nothing is the same as it used to be (Kirman, 2010: pp. 498-535).

Economic crises can occur for various reasons. These can be listed as follows: Wrongly implemented economic programs, injustice in income distribution, insufficient supply and demand, excessive borrowing according to the country's resources, the inability of countries to maintain their current account balance, rapidly changing economic developments and the speculative realization of capital movements can be shown among the causes of economic crises. The causes of economic crises may not always be economic (Van Hal, 2015: p. 17). In addition to economic reasons, political, technological, sociocultural, domestic and foreign fluctuations may cause a crisis over time. The causes of economic crises can be divided into internal and external (Sternad, 2012).

A) Internal factors

Disruptions in the structure of the country's economy can cause crises. The fact that the economic system is not fully settled in some countries causes the market system to be misunderstood. The lack of information and coordination in these countries hinders the effective functioning of both the central government and the market system. It can be said that such disruptions in the economic system cause declines in the investment volume, which is the main factor of economic growth. It is clear that investments depend on the amount of savings and the inadequacy in savings will be an obstacle to growth. In addition, the failure to transform savings into investments leads to loss of confidence in financial markets, causing savings to go under the pillow.

Countries that cannot meet the foreign exchange needs of the economy through foreign trade in the long run resort to foreign borrowing. This situation leads to an increase in the external deficits of the countries. The factor that plays a balancing role in closing the external deficit is capital accounts. In such countries, the capital account that wants to benefit from foreign exchange and interest arbitrage is a short-term capital account. However, short-term capital or hot money may bring prosperity to the economy at first, but in the environment of instability and insecurity in the country, it immediately flees the country (Vartanian & Garbe, 2019: pp. 66-86).

This, in turn, may cause the country's bad economic situation to become inextricable and drag the country into an economic crisis. One of the characteristics of this type of crisis is that it spreads and tends to spread from one country to another in accordance with the domino theory. When insufficient savings rates and significantly increased foreign trade deficits in underdeveloped countries are combined with inefficient public administration, public sector deficits may increase and serious consequences may arise. First of all, since the country's resources are used by the public sector rather than the private sector, it may cause an increase in interest rates. This is known as the exclusion effect in the literature. Secondly, it can be said that the ineffective use or waste of scarce resources by the public sector causes insufficient resources to be allocated to productive areas that will increase investment. Third, it causes banks and those with money to turn to government bonds. Those who earn income from the interest given by the state do not earn by producing, but from the rent, which is the income of interest, and thus contribute to the transformation of the economy into a rent economy. It can be said that the monetary and fiscal policies implemented by the countries to eliminate the problems in the economic structure are insufficient due to the structural characteristics of these countries. For example, a small change in the market interest rate in developed countries will have a large effect on the market, while a larger percentage change is required for the same effect in developing countries (Hertati et a, 2020: p. 236).

In addition to all these, expectations have an important effect on the economy. One of the important elements of economic development is that market makers have optimistic expectations. It is an undeniable fact that the entry and exit of a country or countries into a crisis depends on the psychological expectations in the market, the stability in the social, political, economic and legal structure of the country or countries, and the capabilities of the economy managers.

B) External factors

The degree to which a nation's economy is open to international trade has a direct bearing on how much influence economic forces from other nations have on that nation's economy. Either a policy of import substitution or one focused on export orientated is followed by developing countries. The manufacturing of items in the United States that were formerly brought in from other countries is an example of import substitution. The import substitution policy demands diverting from the free trade policy and safeguarding the industries belonging to the goods intended to be produced domestically from the outside with customs and quotas. This can only be done by diverging from the free trade policy (Ahmet & Fatih, 2011: pp. 10286-10293).

When it comes to choosing which approaches of industrialization they will pursue, developing countries must contend with a number of constraints. Even though it is widely acknowledged that an export-oriented approach to industrialization is both necessary and preferable, the vast majority of developing nations have chosen to pursue modernization through import substitution instead. The primary reason for this is because the price and income elasticities of demand are different for items that are sold by rich nations that need a lot of capital vs goods that require a lot of labor that are exported by developing countries. The growth in demand for commodities that require a lot of work in developing nations is lower than the increase in demand for goods that are produced in developed countries as consumer earnings in developed countries rise. As long as commerce between developing nations and developed countries continues to be balanced by the export of items that need a lot of labor and the import of goods that require a lot of capital, the terms of trade for developing countries will continue to deteriorate to their detriment (Ortega-Ruiz et al., 2015: pp. 367-380).

The disconnection of a developing nation's economy from the global economy, that nation's inability to meet the conditions of competition, and that nation's inability to keep up with advances in technological innovation are among the primary factors that contribute to the region's protracted state of instability. On the other side, governments have opened up to other nations as a result of the export-oriented industrialization policy. The degree to which an economy is sensitive to shifts in the global economy can be said to be growing gradually depending on the export-oriented industrialization strategy, the liberalization of the goods and services trade of the countries, and in the later stages of the financial markets and the level of openness.

1.2 The Road to World Economic Depression

1.2.1 The economic impact of the great war

Nobody imagined that the First World War, which started in August 1914, would extend for four years, involve as many countries, as much technology and automation, as many lives would be lost, as much havoc would be inflicted, and, yes, as much money would be spent. The war was responsible for the destruction of a significant portion of Europe's infrastructure, industry, and transportation (Mueller, 1991: pp.1-28). This destruction extended from Belgium and France in Western Europe to Russia in the East and Turkey in the South East of the continent. The war also caused an economic boom in other nations that were not a part of the European theater of war, such as Canada, the United States of America, Argentina, Brazil, and Australia (Matziorinis, 2007: p.2).

In order to pay for the costs of the war, each side was had to deplete its gold stores, borrow money, and, as a last resort, print their own currency. The United States was the source of inspiration for all three of these countries, while Britain was the source of inspiration for France and Belgium. The war not only disrupted routine trade patterns on both a national and international scale, but it also harmed the economies and financial strength of the old world, particularly that of the United Kingdom (Prior & Wilson, 2000: pp.319-328). In order for the European countries to pay for the costs of the war, they racked up massive amounts of debt.

The worst thing that could have happened to the economy as a result of the war was that it caused governments to give up on the gold standard. This standard had been in place for almost a century and had kept prices stable and enforced monetary discipline by connecting paper money to gold. High inflation, rising prices, and a decrease in purchasing power were the results of countries issuing more paper money than was permitted by their dwindling gold holdings. This led to a reduction in purchasing power. The effects of this inflation on Europe after the war were twofold (Matziorinis, 2007, p.2):

a) the exchange value of each country's currency had become skewed, making it impossible for them to return to the same parities after the war;

b) in order to restore pre-war parities, governments needed to engineer deflation in order to bring prices back to where they had been before the war.

It was one of the primary repercussions of the fight that undermined the foundations of the global monetary system, which increased the likelihood of a financial collapse. This was one of the most disruptive effects of the conflict. Another one of the Great War's enduring impacts is the fact that it played a large part in toppling the preceding order of European geopolitical domination and worldwide economic hegemony. This is one of the war's more enduring aspects. Russia, which had the fifth-largest economy in the world in 1913, saw internal strife, the Russian Revolution of March 1917, economic collapse, and civil war prior to failing and sliding off the global economic system. In 1913, Russia had the fifth-largest economy in the world. The economies of Eastern Europe went into a downward spiral as the new Communist rule abandoned the obligations owed to the West by the Czarist authority (Bouchat et al., 2017: pp. 195-208). The collapse of the Ottoman Empire resulted in the formation of new nations and the expansion of existing ones in both the Balkan Peninsula and the Middle East. All of these nations that had recently been established or reconstituted were required to establish new treasuries, issue new money, pay off war debts, develop new economies, rebuild their populations, and negotiate new trade deals with one another (Faroqhi et al., 1994).

The most unfortunate thing that had place was the downfall of the old Austro-Hungarian Empire, which had previously dominated the middle region of Europe (Dornbusch, 1992: pp.391-424). After the signing of the Treaty of Versailles, the empire was subdivided into four new countries: Poland, Romania, and Yugoslavia, as well as the newly formed nations of Austria, Czechoslovakia, and Hungary. In addition to the contraction of Germany's borders, all of these movements in geopolitical power caused major economic instability and political turmoil across the continent (Neiberg, 2017). They also left a massive power vacuum in Central Europe and placed enormous strains on the global monetary system because these new nations needed funding, export markets, and financial aid to rebuild their war-devastated economies. Additionally, they left behind a massive power vacuum in Central Europe.

The newly independent states quickly began erecting trade barriers between themselves, which led to a decline in overall commerce as well as a diminished capacity for nations to amass sufficient wealth and employment opportunities to meet the needs of their growing populations. While these empires were still in existence, all trade that took place within their borders was permitted to travel freely without the imposition of any customs or trade restrictions; these areas may be considered free-trade zones (Sharp, 2005: pp. 423-438).

1.2.2 Gold standard collapse and impact on global financial imbalances

As soon as the conflict began, many nations decided to halt the use of gold in the process of settling international trade. In addition, in order for governments to be able to print money to pay for the war effort, the gold standard had to be abandoned since the urgent need for money to finance the war made it necessary. The transition away from the gold standard was more simpler than returning to it. The new post-war environment had resulted in the emergence of a great number of new countries, most of which were relatively powerless. Every nation was required to peg the value of their currency to the price of gold and to stand behind that value with gold reserves (Meissner, 2005: pp. 385-406). However, in order to accomplish this goal, it was necessary for them to acquire gold by exporting more than they imported and obtaining loans from other nations. In the severe environment that followed the Treaty of Paris in 1919, this proved to be very difficult to accomplish (Drost, 2012). If exchange rates were pegged to gold, then every nation's budget would have to be balanced, which would put a cap on the amount of money any one country could spend. Because the requirements of the people were so large, it was necessary to make sacrifices, which the population was not as eager to do (Bordo, 2006: pp.1-18).

In addition, in order to recover the value of the currencies and return to the gold standard at the exchange rates that existed before the war, it was necessary for prices to be reduced to the levels that existed before the war. To put it another way, in order to restore the pre-war level of stability to the international monetary and trading system, it was necessary to return to a system that was universally recognized, specifically the gold standard. In order for countries to readjust their pricing levels and return to the gold standard, it was necessary for those countries to reduce their prices. In order to bring down prices, governments were required to make spending reductions, salary reductions, subsidy reductions, and market price reductions for commodities and products (Bordo & Schwartz, 2009).

This amounted to an economically deflationary set of policies, which put a significant amount of economic pressure on economies to go in a downward direction. No economy was subjected to these forces more than the British economy, where the government went on a starvation diet, which led to significant unemployment and labor struggle, particularly in the coalmines. No other economy was subjected to these pressures as much as the British economy. Under the leadership of Winston Churchill, chancellor of the Exchequer, the United Kingdom reinstituted the gold standard on May 14, 1925, with the pre-war exchange rate of $4.86 U.S. dollars to one pound (Matziorinis, 2007, p.3).

The policies to restore and maintain the gold standard in Britain caused a decrease in demand within the country. The effects of these policies were not limited to Britain but also affected other nations and domains within the British empire, as well as those that depended on the pound and British capital markets for their financing. This resulted in the spread of deflationary forces across the global economy. Despite these efforts, there was little optimism regarding the longevity of the return to the gold standard (Matziorinis, 2007, p.4).

The decision to remove Great Britain from the gold standard was made by the British government on September 19, 1931, which resulted in a significant drop in the value of the pound sterling on the international market (Eichengreen & Temin, 2000: pp. 183-207). The majority of responsibility for the Great Depression, according to Lionel Robins' (1934) interpretation, lies with the fall of the gold standard (Turner, 2007: pp. 67-83). Even if the reinstatement of the gold standard may have had a deflationary impact on the economy of the entire world and may have made the depression worse, it did give a monetary discipline, a compass, and an anchor for all of the other nations to follow and use to coordinate their actions.

Following the collapse of the gold standard, there was no longer any basis upon which to pursue internationally coordinated economic policies because there was no longer any standard. Now it was up to each country to do what it considered was the most expedient thing to do, and countries were no longer required to consider what was best for the general good rather than what was best for their own limited economic interests. It was a case of "devil take the hindmost," also known as "sauve qui peut," when this occurred since it opened the door to economic anarchy on a global scale.

Following the end of the war, parties convened at the Palace of Versailles in Paris in 1919 to negotiate the terms of the armistice. Politically, the world was divided into two groups: the winners of the Entente alliance and the losers of the Austro-German alliance. However, from a financial standpoint, all nations were adversely affected by the war, resulting in their economies in ruins, devalued and depreciated currencies, high unemployment and inflation rates, and considerable obligations to each other. It took over 75 years before Russia, under the leadership of Gorbachev, finally settled its debts to France and Britain, which had been incurred during the war (Matziorinis, 2007, p. 4).

Greece and Serbia were financially responsible to Britain and France, but France and Belgium were financially responsible to Britain. The United States was indebted to both Great Britain and France financially. The United States of America, Canada, Australia, and Argentina were the war's few victorious countries; nonetheless, it was the United States that emerged from the conflict as the true superpower of the world (Spykman, 2017). After the battle was over, the victors' most immediate problem was figuring out how they were going to pay off the debts that they had racked up throughout the conflict. Clemenceau, the Prime Minister of France, believed there was more to the issue than economics. He intended to take his vengeance on the defeated German nation by forcing her and her Austro-Hungarian ally pay for the war losses that were incurred (Cartledge, 2009). The solution was to force Germany to make payments in the form of war reparations.

On this basis, Germany and Austria would pay France, Belgium, and Britain, who would then pay Britain, which would ultimately pay the United States of America. The issue, however, was that Germany and Austria had seen their fair share of the devastation caused by the war; as a result, they had seen their own coffers decimated, and they were also smaller and less capable economically. It was unreasonable to anticipate payment from the people who had lost, especially considering the magnitude of the damages that were awarded to them in comparison to their capacity to pay. John Maynard Keynes, who served as the Economic Advisor to Lloyd George and the British Prime Minister during the negotiations in Paris, had the unique ability to understand the issue in a manner that was both crystal obvious and succinct (Baumol, 2003: pp.3-16). The reparations imposed on Germany after the war were excessive and should have been lighter or eliminated altogether. Additionally, the winning powers should have implemented a mechanism to support economic reconstruction and cooperation to restore balance on the continent for the benefit of all parties involved. The mistakes made after the First World War were recognized by the allied powers, who established the Bretton Woods system, the Marshall Plan, and NATO following the Second World War to avoid repeating them. However, in the aftermath of the armistice, Germany and other central European countries lacked the necessary capital and resources to restart their economies. Consequently, the limited resources available were sent to France and Britain to fulfill reparation obligations, which prevented the recovery of Germany and other central European economies. France and Britain used these reparations to pay off their debt to the United States. If Germany was unable to find a method to finance its exit from the situation, then the entire process was certain to fail catastrophically (Matziorinis, 2007, p.6).

1.2.3 Failed Economic Policies and unbalanced financial circumstances

A lack of leadership and vision during this time period, which historians regard to as the interwar period, contributed to the worsening of many policy blunders that were already committed during this time period. What the victorious parties at the Armistice did not do, as well as what Great Britain and the United States did not do after the stock market plummeted and economic activity began to fall, were the two fundamental events that most defined the time period. The Treaty includes no provisions for the economic recovery of Europe, for turning the vanquished Central Empires into friendly neighbors, for stabilizing the new States of Europe, or for recovering control of Russia. These goals are not addressed in the Treaty. It also does nothing to advance the Paris Accord's commitment to economic solidarity among the Allies; no agreement was reached there for reorganizing France and Italy's disorganized finances or for adjusting the system of the Old and New Worlds. Moreover, it does nothing to advance the Paris Accord's commitment to economic solidarity among the Allies. In 1919 and 1920, the conditions were set for a downward spiral due to an absence of leadership, good will, and vision (Eichengreen, 1996).

The United States of America, which by this point had established itself as the de facto economic leader of the world, as well as Britain, made the second mistake of failing to act decisively and meaningfully as the lender of last resort and as the guarantor of the global monetary system when the crash of 1929 took place. This was despite the fact that the United States had by this point established itself as the de facto economic leader of the world. In addition, the Federal Reserve of the United States was too quick and aggressive in raising interest rates during a time of financial instability in Europe. This caused the Fed to fail in its role as a lender of last resort, which would have allowed it to rescue failing banks and provide support for the entire financial system in the aftermath of the disaster. The United States of America (USA) made poor choices in 1929 and 1930, which resulted in a leadership void that dealt the nation its fatal blow. According to Kindleberger, Great Britain was unable to play the role of a stabilizer in the years 1929, 1930, and 1931, and neither would the United States (Kindleberger, 1986).

When every nation made the decision to protect only its own national private interest, both the global public interest and the private interests of its citizens were put at risk. Due to the United States' inability to make a decisive move in the market during the years 1929 and 1930, which sparked the cycle of rival devaluations and neighboring policies that is so characteristic of this time period, Great Britain was forced to abandon the gold standard in May of 1931 (Swenson, 2002). This was the result of the United States' failure to move decisively in the market during those years. In addition to the devaluation of the British pound sterling by 33% by the year 1932, the United Kingdom also renounced its decades-long commitment to free trade and instituted an import tariff of 10% (Zeiler, 2022).

Another way that the Smoot-Hawley Tariff of 1930 contributed to the failure of the United States to lead can be stated as follows (Irwin, 1998: pp. 326-334): In order to safeguard domestic agricultural and industrial interests as well as jobs, the Congress of the United States raised the standard rate of taxation applicable to foreign goods exported to the United States from 15% in 1929 to 60% the following year. In 1934, four years after the crisis, the amount of world trade had dropped to barely one-sixth of its level before to the crash (Financial Crisis Inquiry Commission, 2011). The extent of the decline was fairly severe. It was a rapid shift in the global economic landscape that was partly caused by the United States' early decision to implement a tariff. This action had far-reaching effects, as it was virtually a declaration of trade war against the rest of the globe. This action by the United States failed to give the necessary help required to preserve the global balance of power. The application of tariffs resulted in the closure of markets and the prohibition of exports of foreign goods to the United States. Since a result, the global economy was weakened as nations were unable to expand their economies through trade. Instead of helping to stabilize the global economy, this action by the United States had the opposite effect and produced a more unstable situation.

It is vital to remember that the United States' choice has repercussions beyond its boundaries. This action had global implications, as other nations scrambled to find new export markets for their products. It took years for things to return to some sort of normalcy after this had a ripple effect that had long-lasting effects on the global economy. As a result of this, other countries increased their own duties as a form of retribution against the United States, which led to the beginning of a period of global trade conflict. The downward spiral into the abyss began with the action that was just described. As a consequence of this, the United States struck a double blow to the already frail and struggling economy of the rest of the globe by not only failing to provide the necessary financing for the rest of the world to overcome the economic crisis but also by tightly restricting its markets.

But in addition to it, there were further problems. The failure of economic leadership in the world at the time was contributed to in part by the loss of intellectual leadership and direction, both of which were extremely crucial for the formation of sound economic policy. The concept of macroeconomic theory and policy as we know it today did not exist during that time period. The idea of macroeconomics was still relatively novel at the time. The balancing of the budget is not currently a primary concern. In the long run, a balanced budget would be achieved as a result of the economy making a full recovery and returning to prosperity. When the economy is in a state of decline, it is the responsibility of the government to spend money notwithstanding the direction of the wind in order to restore economic equilibrium (Matziorinis, 2007, p.6).

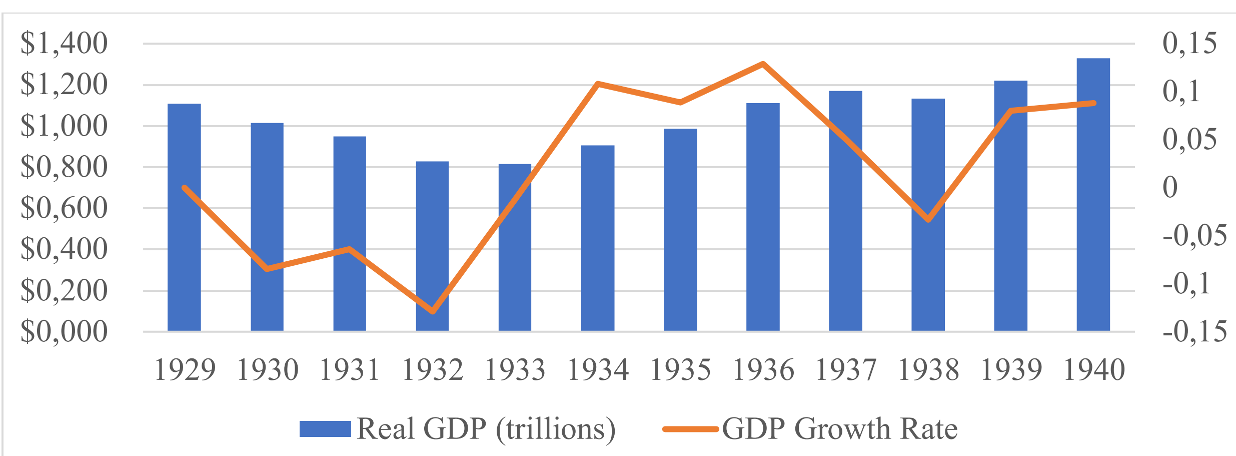
It was important for there to be a Great Depression in order for humanity to get an understanding of the forces that influence their economies and learn how to control those factors in order to maintain full employment and price stability. John Maynard Keynes, was the person who played a pivotal role in the development of a new theory and a new set of policy tools to address crises of this nature. During this period, Keynes released The General Theory of Employment, Interest, and Money, his most renowned book. In this work, he presented a novel economic theory that contradicted many of the prevalent assumptions of the time. According to Keynes, the market was incapable of self-regulation and could not be depended upon to generate full employment and steady economic development.

He claimed that government involvement was required to stabilize the economy and guarantee full employment. Keynes also outlined a set of policy instruments that may be employed to combat economic crises such as the Great Depression. The use of fiscal policy, which incorporates government spending and taxation, was one of the most crucial. According to Keynes, the government should raise expenditure during economic downturns in order to promote economic activity and generate employment. This expenditure may be financed by borrowing, which would be repaid during periods of economic expansion. Keynes also recommended the use of monetary policy, which entails manipulating the money supply and interest rates, as an important policy instrument. According to Keynes, the central bank should cut interest rates during economic downturns to promote borrowing and increase economic activity. This would also facilitate the government's ability to borrow funds to finance its expenditures (Keynes, 1937: pp. 209-223). Therefore, in an effort to bring their budgets into balance, governments attempted to respond to the crisis in a desperate manner by slashing spending and boosting taxes in accordance with incorrect economic notions. This was done in an attempt to deal with the problem. On the other hand, doing so had the opposite effect. It made the slide worse by reducing spending power, which in turn resulted in further lowered tax receipts and rendered it impossible to balance budgets. It became increasingly difficult to keep it under control. When they cut more, the economy became worse, and when they needed to cut more, the economy got worse. This cycle continued indefinitely. In the end, they were successful in destroying what little was left of Europe's fragile and feeble economies. This led to an increase in global unemployment rates, as well as poverty, famine, disease, and desperation.

1.3 Reflections of the Great Depression to America and Europe

In the United States, the Great Depression began with the stock market crash of 1929 and led to a sharp decline in industrial production, rising unemployment, and falling prices. The unemployment rate rose from 3.2% in 1929 to a peak of 24.9% in 1933. The Gross National Product (GNP) fell from $104 billion in 1929 to $55 billion in 1933, a decline of nearly 50%. Many banks failed, and many farmers were unable to make a living, leading to a wave of foreclosures and evictions (Romer & Pells, 2003: p.11). Nearly all professions in America were affected by unemployment, including manufacturing workers, craftspeople, tailors, physicians, and clerks. 7.5 million individuals were unemployed as of the start of 1932, according to estimates. Given that each unemployed individual had a family of three, there were 22.5 million people who were in financial need. That would be equivalent to one fifth of all Americans. America's landscapes after the Great Depression were exceptional. Before the devastation of the Great Depression, hundreds of billionaires enjoyed luxurious lifestyles; now they were forced to live on the streets of New York in search of a piece of bread. In addition to unemployment, malnutrition is becoming a threat in the United States. Hunger protests started to be planned. 300 hunger protesters attempted to speak to the administration in the nation's capital, Washington.

Figure 1. GDP figures 1929-1940



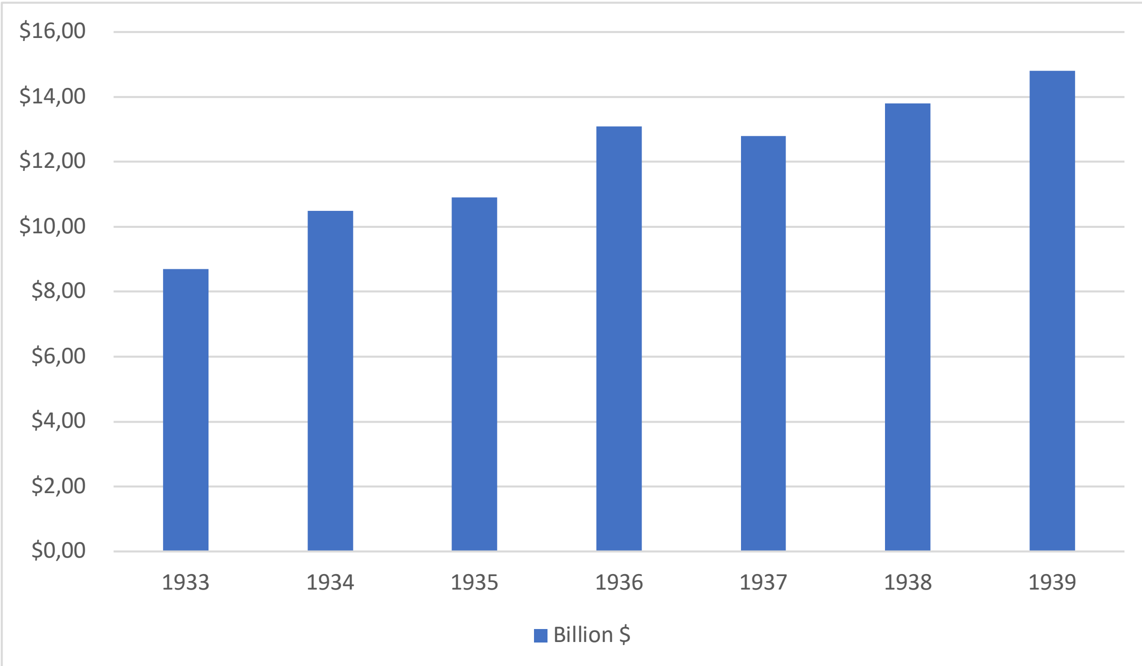
The destruction of the crisis on economy in America and other nations increased after the monetary system collapsed in 1931. The severity of the crisis grew as a result of crisis prevention measures, and the theories and methods of classical economics were insufficient to end the crisis. The government's increase in direct and indirect spending to boost the economy, boost aggregate demand, and lower unemployment has sparked concerns over how and where these expenditures would be paid for.

Businessmen and the general public viewed these developments with mistrust even while governments in many nations raised their borrowing to avoid depression. It was unusual to find a businessman who had not yet been impacted by the global financial crisis. The US Government began to fall apart when the large reduction in exports and imports between 1929 and 1932, price falls, unemployment, poverty, and hunger brought dissatisfaction (Hall & Ferguson, 2009).

After the monetary system failed, US President Herbert Hoover tried a number of novel strategies, but it was evident he would not be re-elected, and the people blamed him and his administration for the crisis. Hoover may have served as American president during a bad period. The Hoover period was brought to an end by the American people, who faced unemployment and other problems as 1932 began. Roosevelt took office as the next president (Schlesinger, 2003). Expert in domestic policy, President Roosevelt sought to foresee the American class war. The New Deal program was put into place by Roosevelt, who won the presidency by pledging sweeping reforms to the economic structure.

As the program was carried out until 1937, there were a lot of financial issues. With this massive initiative, an attempt was made to combat the 1929 Depression, the consequences of which peaked in 1933, but it was unsuccessful, despite not being a premature intervention as in the Hoover era. Alcohol prohibition was one of the topics raised in America during the Great Depression of 1929. Republicans supported applying the restriction. Republicans said that the working class already adhered to strict standards.

Figure 2. New deal spendings



The Republicans wanted working class people to spend the money they would otherwise spend on alcohol on things that would support their families. Many persons were engaged in pro-prohibition-related work as well. Democrats, on the other hand, supported easing the embargo. They said that even though it was illegal, alcohol was drank, and that many people were dying and adopting immoral behavior while smugglers made money. The state might start to make billions of liras if the alcohol ban were abolished, and new job possibilities may also be created.

Up until 1929, the USA was a nation that was the world's leader creditor. The USA served as the hub for the global economy, stock market, and gold standard. The Great Depression resulted from the negative effects of the political and economic events that started in 1929, which led to the 1929 Stock Market Crisis that erupted in the heart of the global economy. The effects of this global slump were felt everywhere, but particularly in Europe. This event, which serves as an illustration of the cause-and-effect connection in history, was a link in the vast chain of the 20th century's political and economic history (Hall, 2010: pp. 3-20).

The impact of the Great Depression on Europe was also severe. The 1929 Economic Depression made itself felt as an agro-industrial crisis in Europe and left about 10 million people faced with the problem of unemployment. In Europe, people began to look for ways to get rid of the depression. Particularly, the significant decrease in agricultural prices pushed the farmers in other directions. In addition to field work, European farmers turned to industrial agriculture, sheep and cattle breeding. Especially poultry and egg trade came first among them. These jobs made the farmers more money (Clavin, 2000: p. 5).

While the major capitalist countries of the world and Europe were looking for solutions to the economic depression by establishing blocks, accumulating gold reserves and withdrawing their money from gold parity, by working on plans, the 1929 Depression was not felt much in a country like Soviet Russia where the economy was directed by the central plan. Even Italy, which has a more driven economy, did not suffer the crisis as severely as other western countries. In Germany, the depression led to a sharp decline in industrial production, rising unemployment, and falling prices (Clavin, 2000). The economic downturn led to the rise of the Nazi party and contributed to the outbreak of World War II. In fact, the progress of the crisis towards a dead end and the deadlock depended on the clarification of the German lock.

The fact that a Germany whose solvency was eroding was at the center of the great world problem further increased the negotiations between the allied states and Germany. On January 30, 1930, as the Dawes Plan completed the transition years and entered the year in which regular payments would begin, it was replaced by the Young Plan. Germany, which had to pay a debt of 132 billion marks, reduced its debt below 37 billion marks thanks to this new plan (Ritschl, 2013).

In fact, the thaw in the German economy began in the 1928s. On top of that, when the collapse in the New York Stock Exchange occurred in October 1929, although this situation was a harbinger of a great disaster, Germany could not realize it, unemployment and a great poverty followed, devastating effects on German unions and as a result the emergence of Nazi

Germany, the economy the shape of the depression has undergone a schematic change. So much so that in July 1932, two-thirds of Free Trade Union workers were either unemployed or working part-time. During the economic depression, the social democratic workers' movement in Germany almost froze itself. As such, the National Socialist (Nazi) German Workers' Party (NSDAP) became the second largest party in the 1930 elections. Thus, the great depression also resulted in the threat of a fascist dictatorship. After that, great danger for both the people of Germany and the whole world was at the door (Haffert et al., 2021: pp. 664-686).

Chapter 2. Household debt as a cause of Great depression

2.1 The U.S. Market Bubble and New York market fail

The United States was going through its roaring twenties while Europe was still in the throes of the Great Depression and striving to get back on its feet. The United States of America emerged from the First World War as the undisputed victor. Its economy grew tremendously during the war as the warring factions in Europe purchased more goods from the United States. At the same time, new technological innovations in the automobile, electricity, electrical appliance, and radio were revolutionizing industry, generating profits, and pushing up stock prices (Matziorinis, 2007, p.7).

This led to a rise in stock prices. The United States had become the largest creditor nation in the world, which led to an increase in its gold reserves. People's desire to purchase shares in investment companies at prices that are higher than the current bids have contributed to the proliferation of these kinds of businesses. As a result, 186 new investment businesses were formed during the year 1928, and 265 new investment firms emerged the following year. Among the various products available on the stock market, investment trusts garnered the greatest interest. Despite the fact that investment companies, which were created solely for the purpose of investing in other companies, did not produce anything physically, these companies, whose only thing was to become a partner in existing investments, were making significant profits as the issued stocks and bonds were sold. Investment companies were created only to invest in other companies.

For instance, the fact that a package of shares that J.P. Morgan, the sponsor of United Corporation, and his colleagues were planning to sell in 1929 at $75, but it was traded at $99 a week after the sale began, encouraged the formation of new investment companies and attracted new investment companies. The difference was passed to the real estate sector and the entrepreneur, and the concern about the stock in the market was eradicated with a great manner. As a result, the future bubbles that were going to be developed in the market, particularly in the real estate market, were postponed.

Fraudulent practices were utilized by investment partnerships throughout this time period despite the fact that at the time investment partnerships were not regarded as prohibited. One of the fraudulent tactics involves making multiple trades in the stock market at the same time. For instance, a company might sell its stock that was worth $50 to another person for $52, and then the first party would acquire the shares at the new higher price either the next day or the same day, quickly after the sale. In this instance, both parties were in the same position; in comparison to where they were before the deal, they were neither in a better nor a worse position.

However, the general public was oblivious of this, and individuals and institutions were being tricked by unethical techniques. All that the public and these individuals and institutions saw was a growth in the price of the stock, as well as a stock that should be followed. As a result, the perception that equities were being actively traded and in demand on the market was established, and as a result, the values of these stocks were driven up. During these years, investors pursued goals that were impossible to achieve, and acted as if stock prices were going to grow indefinitely; this was the primary cause for the manipulation of market prices (Parker, 2009).

The influx of American investment into Europe and Germany in particular began in the form of foreign direct investments in German industry as well as funding to acquire European sovereign bonds (Matziorinis, 2007, p.7). These types of investments came from the United States of America. In the 1920s, wartime inflation came to an end and was followed by a period of mild deflation. This resulted in a restoration of purchasing power and a newfound confidence in the economy. A shaky recovery was started in Germany and the rest of central Europe thanks to loans and finance provided by the United States to banks in Germany and Austria. The United States of America had, unbeknownst to itself, grown into the role of the world's primary financial support system (Rappoport & White, 1994: pp. 271-281).

However, the state of the economy was almost too good to be true. It felt like the stock market was the finest method for the average American to take part in the wave of wealth that was sweeping the nation at the time, and every average American wanted to do so. With low credit margins, an investor could buy a dollar's worth of stock with only ten cents, and the difference would be granted as credit by the stock brokerage businesses and the banks that supported them. Everyone ended up ahead as a result of the rise in stock prices, which encouraged more people to put their money into the market.

The market grew into a bubble as more investors participated, which resulted in stock values reaching new all-time highs. Investors were no longer basing their decisions on the qualities of individual companies; rather, they were placing their money on the expectation that the market would continue to increase. It was a circumstance that could not continue on indefinitely. In order to bring an end to the frenzy and deflate the bubble, the recently established monetary authority known as the Federal Reserve began increasing interest rates in order to bring the market under control (Matziorinis, 2007, p.8).

But in a weak global economy that was dependent on US capital, it also raised the cost of lending to them as well, and what's worse is that it spurred Americans to repatriate part of their wealth so that they may make higher returns in the USA. Then, on Thursday morning, October 24, 1929, the Dow Jones Industrial Index began a precipitous decline, which continued throughout the day and resulted in the index losing more than twenty percent of its value in only two days. On Wall Street, this caused a panic since many brokers were caught short and many investors lost more money than their margin allowed for (Sornette, 2009). On this day, which in the United States is known as "Black Thursday," 16 million shares that had lost between 50 and 90 percent of their value were sold on the New York Stock Exchange.

The large banks made large payments and purchased stocks in an effort to have some influence over this calamity, which ultimately became a disaster. These banks, one after the other, came dangerously close to declaring bankruptcy as they attempted to halt the drop in the stock market (Berton, 2012). The number of commercial and industrial businesses that filed for bankruptcy in the same year was 22,909. This figure continued to rise all the way up to 1932. In 1932, there were a total of 31,622 commercial and industrial businesses that were forced to close their doors due to financial difficulties. The massive shakeup that occurred at the New York Stock Exchange acted as a banking crisis, seizing hold of industries all across the world, and making its presence known as a general crisis.

The magnitude of this issue was brought into sharper focus when considered from both a historical and a social perspective. There was one significant fault in the American economic system. In addition to this, the speculating that took place on their stock markets was the cause. The result of this was that the loss of billions of dollars' worth of assets in a variety of forms severely upset the financial status of thousands of people. The speculation on stocks and bonds that took place in the stock markets was nothing more than a disease brought on by the supply and demand law.

The following Monday, "Black Monday," saw another record number of shares sold, with prices dropping even further. In the following days and weeks, panic set in as investors rushed to sell their shares, leading to a downward spiral in stock prices. The impact of the Stock Market Crash of 1929 was widespread and severe. Millions of people lost their savings and their jobs, as businesses went bankrupt and unemployment rose. Banks failed as well, as many had invested heavily in the stock market and were unable to meet the demands of panicked depositors. As a result, the overall economy of the United States and many other countries around the world went into a deep recession, which later became known as the Great Depression.

Instead of flowing into Europe to prop up the capital-starved economy, in the following years international capital began to flow out, which resulted in a succession of bank defaults on European soil, the first of which was in 1931 the Vienna-based Credit-Anstalt, which was Austria's largest deposit bank. The harm had already been done, and there was no hope for anyone because the financial pillar of the world was now in financial crisis. The situation deteriorated, which led to a series of bank collapses throughout continental Europe and subsequently on shore in the United States (De Haas & Naaborg, 2006: pp. 159-199). This was brought about by the movement of capital away from Europe in order to cover losses in the United States.

A slowdown was caused by a fall in confidence as well as the difficulty of banks to offer credit, which led to a slowdown that developed quickly throughout the years 1930 and 1931 (Romer, 2003). Within a short period of time, the economic instability and slowness expanded from one country to the next until it had infected the entire world with its plight. The only countries that were spared the worst of the economic ramifications of the crash were ones that had turned to autocracy and had been fully separated from the global economy and world financial system.

2.2 Household Debt and the Economy

Household debt, which encompasses mortgages, credit card debt, student loans, and other types of borrowing, is one factor that has the potential to significantly influence the economy as a whole. In the 1920s, household debt in the United States was relatively modest, but it began to rapidly climb in the 1930s and continued to do so into the 1940s (Moss & Johnson, 1999). The Great Depression of the 1930s was a severe economic slump that was driven by a number of causes, one of which was a huge increase in the amount of household debt. The Great Depression lasted from 1929 to 1939 (Higgs, 1997: pp.561-590).

In the 1920s, the economy of the United States was thriving, and as a result, many people were able to buy homes, automobiles, and various other consumer items on credit. Because of this, household debt continued to increase, and by 1929, it had reached levels that had never been seen before. This contributed to the Great Depression. This rise in household debt was a key contributing factor to the fall of the stock market in 1929, which marked the beginning of the Great Depression (Olney, 1999: pp. 319-335). The decade of the 1920s in the United States was known as the "Roaring Twenties" because to the time of economic success that it experienced. The economy was expanding at a rapid pace, and unemployment was at a historically low level. A rise in consumer expenditure during this time of prosperity led to an increase in household debt, which in turn led to a rise in consumer spending (Streissguth, 2009).

The availability of credit was a significant contributor to the rise in household debt that occurred in the 1920s, and it was one of the most important drivers. Installment loans became available from banks and other financial organizations, enabling customers to pay for large-ticket items like automobiles, home appliances, and furnishings over an extended period of time. In most cases, the repayment of these loans took the form of a series of modest monthly installments spread out over a period of many years. People were able to acquire products that they had previously been unable to due to the fact that this made it easier for them to make payments (Hyman, 2012: pp.40-49).

The emergence of consumer culture in the 1920s was another element that contributed to the growth in household debt that occurred during that decade. People's overall quality of life began to rise, which resulted in an increase in the amount of money they spent on various consumer products and services. This was made possible by the proliferation of new advertising mediums such as radio and magazines, both of which contributed to the development of a consumerist society.

People started viewing the acquisition of new objects as a method to demonstrate their status and compete with others their age. A rise in the consumer culture combined with an increase in the availability of financing led to a rise in the number of people purchasing homes. A great number of individuals were able to acquire homes using credit, and they were able to obtain mortgages with modest initial deposits and extended payment terms. Because of this, there was a surge in the construction of new homes as well as the extension of existing ones, which led to a boom in the housing market (Goldberg, 1999).

Nevertheless, this surge in household debt came with some negative consequences as well. As a result of the fact that many people were incurring debts that they simply did not have the means to repay, these individuals were becoming increasingly susceptible to economic downturns. In addition, the rise in personal debt among households was not uniformly experienced by all members of the population. Because individuals with higher earnings were more inclined to take on debt than those with lower incomes, this contributed to a widening of the income disparity that existed between the two groups (Field, 2011).

As the decade of the 1920s came to an end, the economy started to experience a downturn, and as a result, many individuals discovered that they were unable to keep up with the payments on their debts. This, in conjunction with other contributing elements such as the fall of the stock market in 1929, was a significant contributor to the severe economic depression that lasted for more than ten years. It is important to remember that the rise in home debt that occurred in the 1920s was a key factor to the subsequent economic crisis, and this fact serves as a reminder of how important it is to monitor and regulate the levels of household debt (Wigmore, 1985).

The economy of the United States was in a crisis state during the decade of the 1930s, characterized by high unemployment rates and slow economic development. This was in part attributable to the high levels of household debt that had amassed over the course of the preceding decade. People were having trouble paying back their loans, so they were obliged to reduce the amount of money they were spending. This resulted in a decrease in the amount of economic activity (Field, 2011).

The fact that many banks and other financial institutions were also substantially in debt during the Great Depression made the negative effects that household debt had on the economy much worse. This was especially true during the early years of the depression. The inability of borrowers to repay their debts caused banks to be obliged to foreclose on the properties of those borrowers, which in turn led to a decrease in the prices of those assets. This, in turn, caused a drop in the value of the assets owned by banks and other financial institutions, which made it harder for them to continue lending money to customers.

The response of the government to the issue was a laissez-faire approach, and it wasn't until the New Deal policies of the administration of Franklin D. Roosevelt that attempts were made to address the problem of household debt. These programs included the Home Owners' Loan Corporation, which assisted homeowners in refinancing their mortgages, and the Federal Housing Administration, which provided insurance for mortgages and helped to stabilize the housing market. Both of these programs are examples of government initiatives that have been successful in addressing housing market issues.

During the height of the Great Depression, President Franklin D. Roosevelt's administration implemented a series of programs known collectively as the New Deal. These programs were designed to combat the issue of mounting household debt and to restore economic equilibrium. These laws, which were enacted during the 1930s and are now regarded as one of the most important bodies of legislation in the history of the United States, were responsible for the implementation of these programs (Billington & Clark, 1993).

The Home Owners' Loan Corporation was one of the most important New Deal programs that was designed to solve the issue of home debt during the Great Depression (HOLC). In 1933, the Home Owners' Loan Corporation (HOLC) was founded to assist homeowners in avoiding foreclosure by assisting them in refinancing their mortgages. This was accomplished by the government buying mortgages from homeowners who were having trouble making their payments and then issuing new mortgages guaranteed by the government with more favorable conditions. The housing market was able to remain stable as a result of this, which enabled homeowners to maintain their properties (Fishback et al., 2011: pp. 1782-1813).

The Federal Housing Administration was an additional significant New Deal program that was designed to solve the issue of household debt (FHA). The Federal Housing Administration (FHA) began offering mortgage insurance shortly after its founding in 1934. This helped to make it simpler for consumers to get mortgages since lenders were aware that the Federal Housing Administration (FHA) would pay the loss if a borrower failed on the loan. Mortgage underwriting guidelines were also developed by the FHA, which contributed to a reduction in the likelihood of loans going into default (Gotham, 2000: pp. 291-317).

The National Recovery Administration (NRA) was another one of the New Deal's programs that intended to stabilize the economy by enforcing fair competition standards, establishing minimum salaries, and capping the number of hours that an employee might work in a workweek. The National Rifle Association (NRA) had the intention of lowering the level of business-to-business rivalry, which would ultimately lead to higher pricing and an improved economy. The National Recovery Act (NIRA), the legislation that first established the NRA, was eventually ruled illegal by the Supreme Court of the United States (Finegold & Skocpol, 1995).

Another initiative under the New Deal that assisted in alleviating the issue of household debt was called the Public Works Administration, or PWA for short. The Public Works Administration was founded in 1933 with the purpose of providing financial support for public works projects such as the construction of roads, bridges, and public buildings. This contributed to the creation of employment and the stimulation of economic activity, both of which helped to lower the amount of debt owed by households (Schwartz, 2014).

The New Deal initiatives implemented by the administration of Franklin D. Roosevelt were a substantial effort to alleviate the problem of household debt and stabilize the economy during the Great Depression. These programs were named after Roosevelt's signature initiative, the New Deal. These programs, such as the Home Owners' Loan Corporation, the Federal Housing Administration, the National Recovery Administration, and the Public Works Administration, helped to provide relief to homeowners, stabilize the housing market, reduce competition among businesses, and stimulate economic activity. All of these goals were accomplished. The initiatives provided the groundwork for future legislation and policies concerning the debt incurred by households and the general economic health of the country.

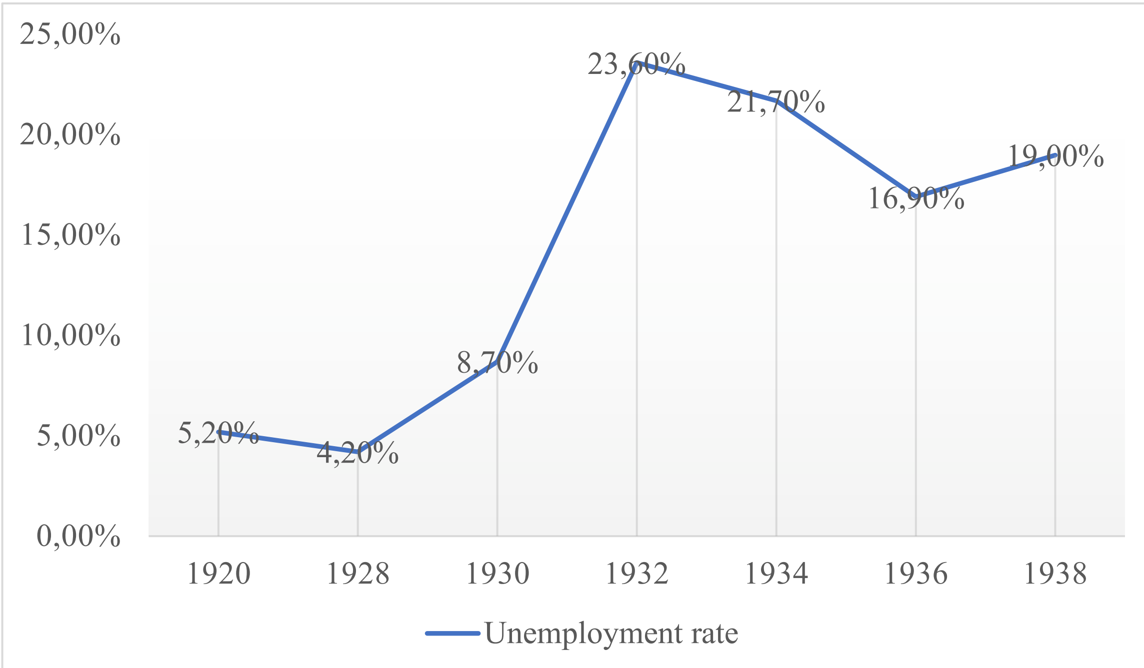
2.3 Damages of depression to household balance and feedback effects

The severe economic downturn that occurred during the 1930s and was known as the Great Depression had a considerable influence on the financial standing of households. The Great Depression resulted in widespread unemployment, decreased earnings, and declining prices; all of these factors contributed significantly to major damages to family balance sheets (Mishkin, 1978: pp. 918-937).

Unemployment was one of the primary factors that contributed to the financial hardships experienced by households during the Great Depression. Many individuals lost their employment as a result of enterprises going out of business and factories cutting back on output. Because of this, many families were unable to make ends meet, and as a consequence, they fell behind in their payments for their many expenses and obligations. In order to live, many households were compelled to rely on support from the government or charitable organizations.

Those people who were lucky enough to still have jobs witnessed a decline in their income, which led to a reduction in their purchasing power and ultimately made it more difficult for them to pay off their debt. The widespread loss of work has led to lower revenues, which has made it challenging for people to maintain their standard of living and pay off their debts (Garraty, 1976: pp. 133-159).

Figure 3. Unemployment rate in US (1920-1938)



Many individuals lost their employment as a result of enterprises going out of business and factories cutting back on output. The unemployment rate in the United States increased from roughly 4% in 1928 to over 24% in 1932, reaching an all-time high. Because of the high level of unemployment, many households were unable to make ends meet, and as a result, they fell behind on their payments for their various expenses and obligations. This resulted in a rise in the number of home foreclosures, evictions, and loan defaults, all of which harmed the financial standing of individual households (Mishkin, 1978: pp. 133-159).

The decline in income brought on by unemployment led directly to a corresponding decline in buying power. Demand fell as a direct result of households having less money available to spend on goods and services, which resulted in a fall in overall demand. This decline in demand ultimately resulted in more job losses as well as a slowdown in economic activity, which made the problem of unemployment even worse.

Because of the high unemployment rate, many families have had little choice but to rely on charity or support from the government in order to stay afloat. This resulted in a rise in government expenditure, but it also resulted in an increase in government debt, which had long-term effects on the economy. It also led to a decline in the standard of living for many households, as a result of their inability to buy essentials such as food, clothes, and shelter.

The Great Depression harmed household balance sheets in another manner by causing prices to plummet, which was a significant financial burden. Because of the Great Depression, there was less of a demand for products and services, which in turn led to a drop in the cost of such things. This phenomenon was referred to as deflation. The decline in prices, which may appear to be a positive development at first glance, was really responsible for a collapse in the value of assets such as stocks, bonds, and real estate. As a result of the decline in the value of assets, household net worth also fell, and many families found themselves in the unfortunate position of having a negative net worth (Mishkin, 1978: pp. 133-159).

During the Great Depression, the decline of the housing market was another factor that contributed to the financial hardships of individual households. As the rate of unemployment climbed, the housing market began to collapse, which resulted in a significant decrease in the value of properties. The term "underwater" refers to the situation in which a homeowner owes more on their mortgage than their home is now worth. This happened to a number of homeowners during the housing crisis. Because of this, it was difficult for them to sell their houses or restructure their mortgages, which ultimately led to them being trapped in debt (Koo, 2013: pp.58-77).

The decline in property prices wiped out, or perhaps made the situation worse for, the wealth accumulated by households for which making a down payment required a major amount of their total wealth. Short loan durations were a structural component of the mortgage market and were common not just in the lending practices of commercial banks but also those of residential banks. These short contract terms probably generated an extra source of contraction in mortgage lending, which in turn produced an additional source of downward pressure on home prices. This occurred when loans whose maturities were approaching but which were not refinanced (Gjerstad & Smith, 2014: pp. 81-114).

In addition to having short durations, the majority of mortgages that were taken out during this time were either non-amortizing or only partially amortizing. Between the years 1925 and 1929, around fifteen percent of mortgages made available by life insurance companies were fully amortizing, but only ten percent of mortgages made available by commercial banks were fully amortizing during the same time period. Between the years 1920 and 1934, the house mortgage portfolios of commercial banks comprised, on average, of between 85 and 90 percent of unamortized and partially amortized loans (Gjerstad & Smith, 2014: pp. 81-114).

As a result of the combination of short loan terms and loans that did not amortize, the misery of both homeowners and lenders must have been made worse as the Great Depression continued to deteriorate. During the years 1930 to 1935, when there was a lot of competition on the credit market, a sizeable share of borrowers would have required to get their loans refinanced. When a borrower tried to refinance their mortgage after prices dropped, lenders were compelled to do one of two things: either give a new loan with a higher loan-to-value ratio or reduce the amount of the loan. After 1926, as the number of foreclosures grew and prices began to fall, this was a proposition that lenders found unappealing, and this was before the conditions of the credit market dramatically deteriorated in 1930.

When homeowners were unable to locate new lenders when their existing loans expired as a result of the obligation to refinance during a time when property values were falling, this must have resulted in sales that were in a distressed state. When the value of a property dropped below the amount of equity the homeowner had in their home, lenders stood the risk of suffering losses as a result of the fact that many loans were not amortizing. Anxiety would spread among families as a result of lost equity and the likelihood of a distress sale, which would result in an increase in preventative savings and a fall in consumption as a result (Gjerstad & Smith, 2014: pp. 81-114).

Because of problems with the household budget, an increase in preventative saves results in a reduction in the amount of money that is spent by the household, notably on long-lasting goods. The subsequent effect of this is a decline in both productivity and employment. When there are fewer jobs available, it makes it harder for families to make ends meet, which in turn leads to a decline in the consumption of long-lasting items and an increase in the number of mortgage defaults and foreclosures. The second way in which a downturn in the housing market may effect economic activity is through decreasing homeowner spending, which then has an impact on both production and employment, as well as the role that decreased employment plays in the difficulties that homeowners have paying their mortgages.

During the time of the Great Depression, the decline of the stock market was another factor that added to the harm done to family balance sheets. When the stock market crashed, a major percentage of the savings of many households was wiped out. These households had previously placed their money in the stock market. Because of this, it was challenging for them to pay off their bills and keep up with their other obligations. The impact that the Great Depression of the 1930s had on the financial standing of households was substantial. Damages to family balance sheets were caused by a number of factors, including widespread unemployment and income reductions as well as dropping prices. The decline of the housing market, the stock market, and deflation all contributed to the damages that were incurred. The Great Depression resulted in a fall in net worth, an increase in debt, and several households finding themselves in precarious financial positions as a direct consequence of these trends. The economy did not start to recover and provide some relief to households and their balance sheets until the policies of the New Deal were put into effect, and then World War II broke out.

Chapter 3. Economic Recovery Evidence from the U.S.

3.1 Relief plan for public and social insurance

The Roosevelt administration had the belief that efforts pertaining to public works and relief would keep people going until the industrial system had recovered sufficiently to give adequate employment from the moment the New Deal was implemented. Despite this, the corporate system continued to exhibit characteristics of being susceptible to cyclical swings that resulted in temporary unemployment and the termination of employees who were too old to continue working. The solution rested in establishing social insurance schemes that can provide for people who are retired or out of work. There is a possibility that social insurance will shield the economy from a potential future downturn (Rauchway, 2008).

These programs were influenced by the social justice component of progressivism, the success of workmen's compensation implemented at the state level, which served as a model for unemployment insurance based on state management, the claims of institutional economists that workers needed protection from the whims of industrialization, and the programs of radical social reformers such as Abraham Epstein and Isaac Rubinow who referenced Europe's advancements in the area of socioeconomics (Leotta, 1975: pp.359-377). The New Deal's relief, public works, and social insurance programs had considerable long-term repercussions.

These benefits were significant. As a result of public works projects, a vast amount of infrastructure was constructed. This infrastructure included facilities for national parks, water supply and sewer systems, flood control measures, infrastructure for highways and air transportation, electric power generation and transmission, particularly for rural and underdeveloped areas, as well as urban housing (Smith, 2006).

An analysis of the economic contributions made by the federal, state, and local governments for various programs within a framework of fiscal federalism is another way to shed light on the growing fiscal cooperation and dependency between the federal and state governments. These findings come from looking at the contributions made within a federalist framework. Between the New Economic Era of the 1920s and the New Deal's postwar years, total government spending at all levels, including federal, state, and municipal, increased as a proportion of GNP (Hogan, 1984: pp. 287-310). Between these two time periods, total government spending increased from 12.8 percent of GNP in 1927 to 17.36 percent in 1934 and 17.86 percent in 1940. The overall contribution from the state increased from 12.98 percent in 1927 to 16.83 percent in 1934 and then increased to 17.51 percent in 1940, while the contribution from the federal government increased from 30.57 percent in 1927 to 38.6 percent in 1934 and then increased to 44.91 percent in 1940. During this time period, the proportion of municipal spending to total government spending decreased from 56.44 to 37.88 percent (Wallis & Oates, 1998: pp.155-180).

This process was distinguished by increased fiscal transfers from the federal government to the states and localities as a result of the federal government's larger tax base, the centralization of programmatic and fiscal authority in the federal government, and the decentralization of responsibility for the implementation of social legislation and public construction to the states and localities. All of these factors contributed to the larger tax base. Between the years 1933 and 1940, cooperative grants for programs that were jointly operated by the federal and state governments had a total cost of around $27 billion, of which $16 billion was allocated to relief programs (Wallis, 1998: pp. 140-170).

Cooperation on financial matters was made possible because to the structure of the federal government as well as differences in the cost of living across states and regions. Before the changes made in 1939, Roosevelt's initial point of view was that a portion of the responsibility for assisting the needy, which included widows and children who were dependent on their parents, should be shouldered by the states. The pressure that was applied by Congress for state oversight of relief and old-age support programs was motivated by the desire to maintain the federal system as well as the diversity that exists in the social views of the local population. Aside from social security, there were no standardized rules for determining the amounts of payments made by the state through its many welfare programs (Schlesinger, 2003).

The provision of relief came first for the simple reason that this is the quickest way to assist those who are in need while also driving up aggregate demand. Hearings were held during the winter 1932–1933 session of Congress by Wisconsin's Robert La Follette Jr., chairman of the Senate Subcommittee on Federal Aid for Unemployment Relief. During these hearings, Harry Hopkins, following a conversation with the president-elect, laid out the fundamentals of the New Deal relief policy (Sautter, 1986: pp. 59-86).

This was done during the hearings. These included providing grants to the states in the amount of $600 million to $1 billion rather than loans and establishing a separate federal agency with the capacity to deal with unemployed people on a one-on-one basis. Shortly after being sworn in as president, Roosevelt sent a message to Congress in which he restated these intentions and asked for the appointment of a federal relief administrator who would also carry out a substantial public works program.

In 1933, Senator Robert Wagner pushed for legislation that would have established a Federal Emergency Relief Administration. Unfortunately, the bill was never passed. In accordance with this act, the Reconstruction Finance Corporation was granted permission to borrow $500 million for the purpose of providing relief, with the proviso that its role in the relief effort be restricted to that of a fiscal agent (Skocpol, 1980: pp. 155-201). The FERA was responsible for the cost of the event. Out of this total, the states each received $200 million depending on the amount of help they had received over the previous three months, and the administrator was given the authority to award the remaining $300 million. The administrator was entrusted with maintaining an adequate level of aid. When President Roosevelt signed the Federal Emergency Relief Act, he made it very clear that he was hesitant to involve the federal government in relief operations on an ongoing basis due to the obligations that were placed on state and local governments (Brown, 1936).

Because FERA only provided cash assistance to people who were unable to work, it was up to the local government to take care of those who were economically disadvantaged and unable to find work. In actuality, local officials were responsible for enrolling those who were unable of holding a job in support programs that were funded by the federal government. This made it more difficult to distinguish between those who were unemployed and those who were incapable of holding a job. The overall amount of federal payments to the states in accordance with FERA increased each year, going from 502 million dollars in 1933 to 1.6 billion dollars in 1934 and 1.7 billion dollars in 1935 (Jacobson et al., 2019).

However, beginning in the late 1930s, the grants started to decrease, eventually falling to a range of $700 million to $900 million each year. The amount of money that came from the federal, state, and local governments to assist those in need also increased steadily over the course of this time period, from $558 million to $954 million, decreased during 1936–1937, and then increased in 1939 to just under $1 billion due to the failure of the budget for 1937–1938. At a period when states and local governments were broke and considered home relief as devastating to the person, Roosevelt and Hopkins were uneasy with the idea of providing relief, even if only as a temporary solution. Public works, on the other hand, did not have the stigma connected to it that relief did.

It was hypothesized that giving unemployed persons who met certain criteria jobs would boost feelings of self-respect, help them retain their abilities, and raise their ability to make purchases. It was unclear how much money would be spent on a works program, which would obviously result in a fiscal imbalance (Hopkins, 1999: pp. 306-316). At this moment, Wagner proposed a bill that had previously been introduced in 1932 under the name Emergency Relief and Construction Act. This bill eventually led to the creation of a public works program with a budget of $3.3 billion that was incorporated into the National Industrial Recovery Act. As a direct consequence of this, a Public Works Administration was established, which was steered by Interior Secretary Ickes (Barenberg, 1992).

Roosevelt gave order, and shortly thereafter, an executive order was issued to establish the Civil Works Administration. The CWA spent approximately $950 million on small works projects in only a half of a year, including airports, playgrounds and parks, sewage and irrigation, highway and street repairs, an emergency education program that hired teachers in adult and vocational studies, a women's work program, and various initiatives for the arts and white collar workers such as manuscript editing, murals, and musical productions (Rauchway, 2008).

All of these projects were funded by the CWA. In January of 1934, when it was at the height of its power, the CWA was by far the largest employer in the country. It was driven by engineers and industrial managers who were dedicated to market compensation and genuine employment. It offered employment to approximately 4 million people, for whom it allocated 75% of its budget for salary. In spite of the fact that CWA hires were limited in the number of hours they could work in order to encourage CWA workers to seek employment in the private sector, the Federal Employees Compensation Act of 1916 provided CWA hires with medical benefits and disability coverage for accidents that occurred on the job (Schwartz, 2014).

After Hopkins informed Roosevelt in early January 1934 that funding for the program would soon be exhausted, Roosevelt immediately ordered a reduction in employment and hours worked, as well as the cancellation of the CWA at the end of the winter (Walker, 1962). Because he was evidently unwilling to be usurped by a newly developed and highly motivated bureaucracy, Roosevelt did not consider relief and public works as a long-term federal responsibility. In the midst of the Great Depression, Hopkins argued for the creation of real jobs for real people, which he viewed as the surest way to ensure employment (Hopkins & Hopkins, 1999: pp. 149-173).

In order to stabilize the economy, President Roosevelt advocated for the creation of temporary federal jobs. He did not desire a group of people who were permanently dependent on him. Instead, the private sector would gradually resume creating jobs, which would relieve the hefty expenditures associated with relief and public works programs on the national Treasury. The CWA ended up being prohibitively expensive despite the fact that it was designed with affordability in mind.

Roosevelt's claim that it was $7 to $8 billion per year seems exaggerated, despite the fact that Corrington Gill of the CWA's Division of Finance, Research, and Statistics calculated an annual spend of $4.224 billion for wages alone. In comparison to annual federal receipts of $2.745 billion, which do not include processing taxes on commodities, an additional 25% for material costs, administrative costs, and the possibility of disability claims under the Federal Employees Compensation Act added up to almost $5 to $6 billion each year (Paul et al., 2018).

Roosevelt recommended that jobs were created for the 3.5 million employable people who were experiencing hopelessness as a result of circumstances that were not occurring on a local but rather a national scale. He made this recommendation while pointing out that 5 million people were now on relief rolls. In this particular instance, the only entity that possessed the means to support a works program was the federal government. The other 1.5 million persons who are unable to work, or unemployables, as described by Hopkins, should be supported by the local community or by a private charity.

Hopkins defines unemployables as the aged, widowed, tubercular, mentally ill, and physically disabled. Roosevelt and Hopkins believed that state and local governments had abdicated their own responsibility for funding relief to the federal government (Hopkins, 1997). However, this belief was modified as a result of the president's willingness to offer federal categorical assistance in the form of matching grants for aid to the elderly, mothers with dependent children, and the blind. In addition, Roosevelt and Hopkins believed that state and local governments had abdicated their own responsibility for funding relief to the federal government (Opdycke, 2016).

WPA spending for wages were up 85 percent of total expenditures since states and local governments were obligated to provide materials and other nonlabor costs. The lower relief wage that was established by the FERA and the higher market or prevailing wage policy that was established by the CWA were both intended to be balanced out by the security wage that was established by the WPA. After that, in response to pressure from labor unions, the WPA began paying prevailing hourly wages in 1936, but it also imposed restrictions on the amount of hours that could be worked and capped workers' monthly incomes at security wage levels. The work of the WPA was expanded to encompass initiatives like as the Resettlement Administration, rural electrification, the National Youth Administration, and others of a similar type. Projects that were started earlier in the arts, white collar, historical, and related fields were carried on. The WPA was responsible for the employment of an average of about 2 million individuals over the course of the subsequent six years, and its total expenditures amounted to $11 billion (Rose, 2013: pp. 155-179).

Because of the way social security and unemployment insurance statutes were framed, as well as the implications those statutes have for the economy, a different approach was necessary. In contrast to relief and public works, Roosevelt and his labor secretary Frances Perkins argued that unemployment insurance and old-age pensions were indispensable components of a modern industrial economy due to the cyclical nature of the industry and the requirement to retire older workers. Unlike unemployment insurance, which was thought to need to be federalized in order to ensure conformity with the Supreme Court's interpretation of the commerce clause, old-age insurance was nationalized as a result of the mobility of employees over the course of a lifetime. This was done in contrast to unemployment insurance, which was thought to need to be federalized (Stabile & Stabile, 2016: pp. 161-199).

Recent comparative studies have framed social insurance in the context of cultural and institutional differences, economic growth rates or levels of industrialization, polity types, the relative strength of labor unions and labor parties, developing bureaucracies, the pursuit of labor commoditization by monopoly capitalists, and in the United States, the impact of regionalism, particularly southern dominance of the legislative process and in terms enunciated as politico-economic regionalism. These factors all play a role in social insurance. In this very important respect, Theda Skocpol's (1980) analysis of the historical foundations of social policy in the United States proves to be an invaluable resource. Plans for social insurance were created in political systems that had a high degree of centralization and by bureaucracies that were rather robust in Great Britain and Western Europe. Officials in the United States lacked such independent power because of the country's fragmented and decentralized structure.

At the forefront of people's minds were worries about working conditions and the growth or very existence of labor unions. Politicians were not always held as hostages by capitalists who benefit from welfare states. Another school of thought contends that the national social insurance policy was came about as a result of pressure from the business sector, which was brought on by the mounting costs of industrial welfare programs that were initiated by large northern firms. After the start of the recovery effort, Franklin D. Roosevelt and Frances Perkins, who was serving as the labor secretary at the time, shifted their attention to social insurance as a means of avoiding future economic slumps. The fact that Perkins was appointed to serve in his cabinet appears to be of lesser importance in comparison to other aspects, such as her pragmatic outlook, commitment to social insurance along different lines from Great Britain, and her administrative talents. Perkins was an active participant in the process of enacting progressive labor legislation and seeing that it was enforced.

Perkins believed that social justice could be established, that the authority of the state could be utilized to solve social inequities, and that the government could be used as a weapon to restrain the excesses of the new industrial system. These are all things that Perkins believed were possible. She had a wealthy upbringing in a New England household, where she was exposed to social Christianity and Simon Patten's economic theory, which held that industry had provided sufficient income to pay for social services. She was affected by both of these ideas. She quickly climbed a ladder that was open to talented middle-class women and became an educator, worker in a settlement home, specialist in labor and safety, and administrator. This final job emerged as state governments, notably in the industrialized Northeast, began to focus on the working conditions for women and children. This was the impetus for the creation of this position (Perkins, 2011: pp. 403-422).

When Perkins was just starting out in her career as a legislative lobbyist, she worked for the Consumers' League in Albany, New York. During her time there, she advocated for the passage of a statute known as the "fifty-four-hour law," which limited the number of hours that working women may put in. Alfred E. Smith and Robert Wagner, both young Tammany protégés at the time, immediately came to admire her, and she later guided them in the direction of reforming industrial safety in response to the fire at the Triangle Factory in New York City. During Smith's first term as governor, he appointed her to the newly constituted State Industrial Board in 1919, and she eventually became its chair and remained in that position until 1924. Following Roosevelt's victory in the election for the office of governor, he elevated her to the position of industrial commissioner (Zuccarello, 1970).

The impact of payroll taxes on the economy was a contentious issue for the business community during the recovery. The majority of business leaders and organizations, as well as the vast majority of smaller manufacturers, were adamantly opposed to national and state-level pensions and social insurance. These groups were fearful of the program's immediate cost and were, perhaps correctly, unaware of the theoretical argument that they could pass these costs on to the consumer as the momentum of the welfare capitalist movement of the 1920s began to wane during the depression. The day before Christmas, Perkins hosted a gathering at her home for everyone.

At the end of a six-hour conversation and a presentation given by Perkins and Hopkins to the president at the White House, the president gave his approval for a federal-state structure with relaxed national criteria. It provided insurance to companies that employed eight people or more and placed a government fee on payroll that climbed from one percent in 1936 to two percent in 1937 to three percent in 1938. The levy was initially one percent. In addition to this, the parameters of the plan contained a credit equal to ninety percent against authorized state projects that make use of pooled funds. A considerable amount of state autonomy was one of the deciding elements, along with the constitutionality question and the insistence of the president and parliamentarians to maintain a certain level of autonomy (Heineman, 2010).

The provision of old-age insurance went in a different direction than that of unemployment reserves since there was no state plan that could serve as a helpful example. All of them required a lengthy period of residency, and the vast majority of them were financed by the property taxes that were collected by the counties. The typical requirements for participation in the program in Ohio were a fifteen-year residency in the state, proof of poverty and moral rectitude, and the placement of a lien against one's house, which the state would use to recoup its costs upon the participant's passing.

In 1935, there were only 231,000 people over the age of 65 who qualified for old-age assistance, which was less than 3% of the total population (Witte, 1935). The average monthly help amount ranged from $26 in Massachusetts to a more usual sum of less than $10 in other states. In Massachusetts, the average assistance amount was $26. The lifetime mobility of workers was another factor that contributed to the intensification of the need for a national policy. Due to the complex nature of the problems that needed to be solved, Witte, who was persuaded to do so by M. Albert Linton, president of Provident Mutual Life Insurance Company in Philadelphia, recruited qualified actuaries (Berkowitz & Fox, 1989: pp. 233-260).

The actuaries used either a pay-as-you-go strategy or a partial reserve technique to compute the reserve, and they determined that it was $15.25 billion. A partial reserve system, as opposed to a complete reserve system, calls for contributions from the federal government that are sufficient to maintain this level at some point in the future when the amount of outgoing payments will be greater than the amount of incoming contributions and interest revenue. It was believed that a comprehensive reserve system would require the accumulation of between $50 and $60 billion over the course of time. This is a sum that is too large for the United States Treasury to handle on its own (Munnell & Rutledge, 2013: pp. 124-142).

In 1937, survivors were given a one-time payment in the form of a lump amount for their loss, and beginning in 1942, monthly annuities began to be paid out. The scheme required a minimum contribution of ten dollars a month, with those with better incomes and the young helping to subsidize others who are getting close to retirement age (Costa, 1998: pp. pp. 6-31). Early retirees, who were originally slated to begin collecting monthly stipends in the year 1942, would have been eligible for an annuity that was 24 cents per month if they earned $100 per month. This figure was determined on an actuarial basis using a monthly wage of $50.48 cents as the base. This system was not primarily one that was based on a person's need, however, because eventually there would be different levels of benefits to reflect previous earning (Quadagno, 1984: pp. 632-647).

In addition, the Social Security Act includes provisions for child welfare, maternity and child health assistance, public health services, and funds from the federal government to the states for the blind and disabled. The introduction of dependent child assistance was pushed for by Grace Abbott, Katherine Lenroot, and Secretary Perkins. This program required the federal government to pay for one-third of the cost of state programs (Burnier, 2008).

The initial CES proposal, which included all working individuals, did not include provisions for domestic servants or farm laborers due to decisions made by the House Ways and Means Committee. This decision was made as a reaction to Treasury's claim that a more comprehensive plan would be too much for it to handle. On the other hand, even in the event that farmers and farm laborers were safeguarded by state legislation, they could still be entitled for retirement benefits. The opposition of the American Medical Association prevented health insurance from becoming widely available. Morgenthau estimated that the rates of payroll levy would begin at a rate of 2 percent in 1937 (Witte, 1937), increase progressively, and reach a maximum rate of 6 percent by 1949. These higher rates would have provided a reserve fund that was predicted to reach close to $50 billion by the year 1980. This is in contrast to the suggested reserve amount of $15.25 billion by the CES.

It was believed that the larger amount would be sufficient to meet any and all future commitments. In light of the group's belief that rising payroll taxes would be so high as to be confiscatory and that they would be reduced by Congress, as they were in 1939, Altmeyer, Perkins, and Eliot, the law's legislative draftsman, worked out a compromise: a small contribution in the first year, with rates rising quickly in the following years. This was done in order to account for the group's belief that rising payroll taxes would be so high as to be confiscatory. In point of fact, the amendments made in 1939 decreased payroll taxes to a total of 2 percent and raised benefits for widows, surviving parents, children of deceased employees, and children and spouses of retirees. In addition, the payroll taxes were cut to a total of 2 percent (DeWitt, 2010).

The subsequent amendments in 1939, which went into effect the following year, increased payments across the board, particularly for workers with low incomes, and established new benefits for insured workers' widows and survivors, as well as their children and parents who were dependent on them. The concomitant postponement of forthcoming increases in payroll taxes led to the establishment of a pay-as-you-go system. Witte, a member of the Social Security Advisory Council, called into question the actuarial basis of the 1939 revision (Achenbaum, 1988).

He asserted that younger future beneficiaries with longer life expectancies would either receive lower benefits or be subject to excessively high payroll taxes as a result of the revision. However, at the time in question, this argument was quite simple to debunk due to the fact that payroll tax receipts vastly exceeded annuity payments. In point of fact, actuarial forecasts made in 1939 turned out to be far off base (Parker, 1951). The prediction of 35 million participants had already been reached by the year 1980, which resulted in an underestimate of future liabilities and an overestimate of future reserves.

The issue of incurred liabilities was circumvented, in Witte's view, as a result of the termination of the reserve system. The options were to either keep payroll levies at their current levels or to begin with multiparty contributions that were paid for by the government, employers, and employees. The choice was ultimately left up to the employees. The latter method, which was modeled after the British system and was afterwards utilized by Alvin

Hansen, made it abundantly clear that the federal government was to blame for the invariably occurring deficit. Opponents argue that in contrast to commercial insurers, the federal government has limitless taxing authority, which renders such responsibilities useless when applied to it. Commercial insurers have restricted taxing jurisdiction

3.2 Introduction of new economics

One of the key developments during this time was the New Deal, a series of government programs and reforms aimed at stimulating the economy and providing relief to the American people. The New Deal was led by President Franklin D. Roosevelt and included a range of measures, such as the creation of the Social Security system, the establishment of the Federal Deposit Insurance Corporation (FDIC), and the implementation of a series of public works programs to create jobs and improve infrastructure (Maney, 1998). Another important change during this time was the growth of labor unions and the strengthening of worker protections. The National Labor Relations Act, passed in 1935, helped to establish workers' rights to organize and form unions, and provided a framework for collective bargaining. This helped to give workers a voice in the workplace and improve their working conditions and wages (Stryker, 1989).

At the same time, the period from 1937 to 1940 saw a resurgence of inflationary pressures in the economy, which was a significant challenge for policymakers. The New Deal policies, combined with a number of other factors, including the growth of military spending in preparation for World War II, led to a rapid increase in consumer prices. This created a dilemma for policymakers, who needed to find a way to balance the need for economic stimulus with the need to control inflation. In response to these challenges, the Federal Reserve shifted its monetary policy stance from one of easy money to a more cautious approach, tightening credit conditions and slowing the growth of the money supply. This helped to curb inflationary pressures, but it also had the side effect of slowing economic growth and contributing to a sharp recession in 1937 and 1938 (Bordo & Haubrich, 2010: pp. 1-18).

The period from 1937 to 1940 was also characterized by a debate over the appropriate role of government in the economy. Some argued that the New Deal had gone too far in expanding the role of government, while others believed that more intervention was necessary to ensure a sustained recovery. This debate continued for many years after the end of the Great Depression, and continues to shape economic policy debates to this day. One of the key lessons from the period from 1937 to 1940 is the importance of balance in economic policy (Mishkin, 1978). The New Deal policies helped to stimulate the economy and provide relief to the American people, but they also had the potential to create inflationary pressures and undermine economic stability. Similarly, the tightening of monetary policy by the Federal Reserve helped to control inflation, but it also had the potential to slow economic growth and increase unemployment (Brinkley, 1996).

The challenges faced during the period from 1937 to 1940 demonstrate the importance of finding the right balance between short-term stimulus and long-term stability. Policymakers must be mindful of the trade-offs between different policy goals, and must be willing to adjust their approach as circumstances change. This requires a careful and nuanced understanding of the complex interplay between different economic factors, and a willingness to be flexible and adapt to changing conditions. Because it followed the slow recovery that had been established by the middle of the 1930s, the recession that occurred during the Great Depression and lasted from 1937 to 1938 was extremely disappointing (Higgs, 1997: pp. 561-590). The recession was caused in part by a reduction in expenditure by the federal government, an excess of inventory held by manufacturers that needed to be eliminated, and a strategy adopted by the Federal Reserve that included increases in interest rates and mandates for banks to maintain reserves.

Both the National Resources Planning Board and then Congress participated in the first discussion and debate on the treatment. As institutional planners led by NRPB economist Gardiner C. Means advocated for federal micromanagement of industry, particularly wage and output maintenance, an economist working for the Federal Reserve Board named Laughlin Currie posed a challenge to this strategy for a long-term recovery by advocating for a compensatory fiscal policy that was based on the net federal contribution to the economy. During this time, institutional planners supported federal micromanagement of industry. Currie made an effort to justify the government's spending by calculating a number that would promote consumption while also encouraging the utilization of unused savings for investments other than public works.

The argument was expanded by Alvin Hansen of Harvard into the realm of macroeconomic management through the utilization of fiscal policy for agricultural programs such as land use planning, public investment in the development of valley resources, urban housing, an expanded social insurance program, and investment in industrial expansion if necessary. These expenditures would be subject to the oversight of a separate body, which would be staffed with knowledgeable individuals and report to Congress. This organization would either increase or decrease the amount of money spent by the government depending on the state of the economy.

During the gloomy days of February 1933, when the Senate Finance Committee was looking for recovery measures, the appearance of Marriner S. Eccles before the committee marked the beginning of the process of establishing a theory of net federal contribution to the economy as a means to end the depression. Eccles's testimony was the impetus for the development of a theory of how the federal government should contribute to the economy. In order to jumpstart the economy and break the vicious cycle of economic decline, the banker from Utah proposed that the federal government provide funding for job retraining programs (Leff & Leff, 1984).

According to his theory, the Great Depression was caused by the excessive savings amassed in the 1920s that were subsequently spent on capital expenditures, resulting in a loss in purchasing power. This, in turn, led to a decline of $30 billion in national revenue. It is not the responsibility of the Reconstruction Finance Corporation to expand loans. The only way to increase prices and earn sufficient government revenue to finance a recovery is for there to be a bigger volume and turnover of bank money. This is the only approach. Eccles, who had inherited a corporate banking empire in the Mountain States, challenged the claim made by Bernard Baruch and Herbert Hoover that a significant reduction in debt would stimulate economic growth. Eccles was the inheritor of the banking empire. Instead, the continual liquidation of debt brought down the value of the assets owned by fiduciary institutions, which in turn jeopardized the institutions' capacity to continue operating as businesses (Parker, 2003).

Eccles relied on the countercyclical theory to explain the situation. He believed that in order to solve the problem of the depression, significant public works expenditures were required. These expenditures needed to be paid for either through the issuance of bonds or through the issuance of money by the Treasury through the Federal Reserve banks. To reestablish a balance between output and purchasing power, the government had also to take on active management of the economic system. This could be done by encouraging a more equitable distribution of wealth and income. In order to achieve this goal, the government must take on active management of the economic system.

Unhappy and being from Salt Lake City, Eccles had a skeptical attitude toward a significant amount of the early New Deal agenda. The economy bill would lead to an increase in unemployment as well as a decrease in consumers' purchasing power. The Farm Credit Act and the Homeowners Loan Act both contributed to an increase in economic liquidity; yet, neither of these acts generated greater purchasing power. A weaker currency would only provide a temporary boon to exports since competitors across the world would take the same. The National Recovery Administration chose to limit production rather than promote increased demand during the recession.

Eccles came to the opinion that the current situation was different from previous depressions, which were conquered by greater expenditure on capital when prices and wages fell dramatically. He got to this view after comparing the current situation to previous depressions. Simply increasing available credit would not be sufficient to fix the issue. In their pursuit of cash, financial institutions continued to enter into loan agreements, despite the fact that it was impossible for them to find customers who were creditworthy. The fall in bank assets that followed was $15 billion, and it was made worse by the fact that there was a decline in the turnover of assets held in checking accounts. Because only 10% of transactions were conducted using cash, increasing the amount of money that was available would not be adequate (Vernengo, 2006).

Bankers were unwilling to extend credit while more than half of productive property was sitting idle, but the government was able to kickstart a sluggish economy thanks to its power to spend money and collect taxes. In addition, because unequal income distribution was a factor that contributed to the depression, it was necessary, in order to find a solution, to place sufficient money in the hands of those who would spend it rather than store it away for a rainy day. This obligatory spending on public works was covered by revenue collected from taxes on high incomes, estates, and the profits of corporations.

Eccles made it clear that he would only accept the position of governor of the Federal Reserve Board if the Federal Reserve System was reorganized and the monetary system was centrally controlled and managed as a tool for accelerating or slowing down economic activity. This was when FDR proposed Eccles for the position of governor of the Federal Reserve Board in the summer of 1934 (Vernengo, 2006). The twelve regional governors of the system, who were responsible for the management of the money, had created a diffuse system in which the money supply had a tendency to be procyclical, meaning that it grew when business expenditure increased and contracted when it decreased (Meltzer, 2010).

This resulted in the system's overall inefficiency. Eccles was of the opinion that in order to reverse procyclical policies, the Federal Reserve Board needed to be strengthened and given jurisdiction over open-market purchases and sales of bills and securities. He believed that this would allow for the reversal of procyclical policies. Eccles made the observation that up until that point, the open-market policy had been determined by the twelve autonomous governors, all of whom were significantly influenced by a limited banking perspective as opposed to a broad social one. He advocated for the Open Market Committee to be reformed such that the board, which would be responsible for representing national needs, would be in charge of policymaking.

The Banking Act of 1935 was the legislation that satisfied Eccles' conditions. It marked the beginning of the move away from a system that was based on distributed power and toward a newly constituted Board of Governors of the Federal Reserve Structure. The newly restructured Open Market Committee was tasked with deciding interest rates and open-market policies. Comprised of seven board members and five representatives of regional banks, the Open Market Committee had previously been charged with determining interest rates. The section of the Glass-Steagall Act that allowed Reserve Bank advances on any acceptable security was made permanent by the new legislation, which also increased the board's jurisdiction to set reserve requirements. The legislation also made the provision permanent. Currie supported the idea of federal investment as a stimulant for economic activity through a monthly series that was put together with the assistance of Martin Krost (Egbert, 1967).

Although the concept of federal investment as a stimulant for economic activity was not novel, it was supported by Currie. The Currie-Krost series was an important stepping stone on the path to the formation of macroeconomic fiscal policy and the goal of achieving full or maximum employment in the economy. It was developed to estimate the amount of money that the government would need to spend on income-generating activities in order to achieve full recovery. Currie and Krost dismissed the official data provided by the Treasury Department that measured the deficit because they were seen to be an inadequate estimate of how much the government contributed to private revenues. Instead, they made a distinction between income-neutral Treasury activity and activity at the Treasury that was either income-increasing, income-decreasing, or income-neutral. The phrase "income-increasing expenditure" was a concept that was used to describe any type of spending that enhanced a person's income in exchange for present benefits, such as public assistance and relief. The majority of tax payments were classified as having lower incomes than previous years. It was believed that the liquidity-boosting effect of loans given to financial institutions with the goal of increasing liquidity would not occur.

Near the end of Roosevelt's first term in office, several of Roosevelt's senior advisers and economists, such as Isador Lubin at the Labor Department and Leon Henderson at the WPA, became aware of Currie's thoughts on the administration's budgetary policies (Lash, 2020). After the recession of 1937–1938 and the disinterest of Eccles and Currie in monetary policy, fiscal policy took the place of the monetary approach as the principal means of economic recovery.Despite the fact that the Currie-Krost studies provided the New Deal with a strong statistical foundation, there was still considerable hostility to the idea of employing deficit spending as a weapon for economic recovery in the interim.

The majority of economists and businessmen continued to hold the view that deficit expenditure should be avoided. The members of the United States Chamber of Commerce overwhelmingly backed a referendum that called for the budget balance to be achieved by reducing spending. This was due to the fact that they believed a natural recovery was beginning and were against Roosevelt's policies. The Board of Governors decided to increase reserve requirements so that they are more stringent. This was done in an effort to rein in the unsustainable growth of credit. This was completed in three stages between August 1936 and March and May 1937 with the assistance of George L. Harrison of the New York Fed and John H. Williams of Harvard, who served as the economic counselor to the bank. These men were essential in the success of these endeavors (Nerozzi & Asso, 2020).

Because of this, reserve requirements were raised, which resulted in the elimination of around three billion dollars in reserves that could have served as a foundation for monetary expansion. Currie, who was not opposed to this tightening, came to the conclusion that the economy was halfway to recovery when it reached $64 billion in national income, which was a significant increase from the $40 billion it had reached in 1932. In order to rein in inflation and speculative stockpiling, he advocated for an increase in interest rates, the reduction or elimination of surplus bank reserves, and the establishment of a budget that was in balance. These findings supported the widely held belief that a natural business recovery was begun, which may lead to smaller deficits and, eventually, a budget balance through increased income from a tax on significant corporations' undistributed earnings. This was a policy that was passed by Congress in June 1936.

According to Currie, in order for an economy to have full employment, it requires a national revenue of between $80 and $90 billion as well as between $17 and $18 billion in capital investments. The latter figure was calculated using the savings made by businesses and consumers, which totaled $12 billion and $6 billion correspondingly. In comparison, spending on durable goods for producers and residential building was $13.6 billion in 1929 and less than $9 billion in 1937, the peak year of the decade, when spending was at its lowest point. Private capital spending could not supply the necessary savings channels for an economy with a $80 billion gross domestic product in the absence of government offsets, war, or irregular inventory bulges.

A steady stream of public investment as an offset to savings in hospitals, roads, slum clearance, and other public works, as well as a stimulus to private-sector investment in residential construction, railroad improvements, and exports, could be used to address the demand deficit. This could be accomplished through a combination of public and private sector investment. The process of collecting Social Security benefits is to blame for this issue. Because we are dealing with high-powered money, only very little federal offsets were required to narrow the gap between the current income level of $60 to $70 billion and the expected income level of $80 to $90 billion.

When an individual or company kept a portion of revenue for savings, Currie remarked in his evidence before the Temporary National Economic Committee that this caused a disruption in the flow of income unless the money was reinvested in plant or equipment. This was the conclusion that Currie came to after examining the evidence. Fiscal policy would take the shape of direct federal investment in the economy or overhead demand management through a permanent system of offsets to saving, with the National Resources Planning Board responsible for stimulating demand sufficiently to assure reemployment. On the other hand, the majority of administration supporters of the new economics led by Currie and Hansen imagined a more forceful approach to removal of underemployment and underconsumption.

Tax policy and an increase in the supply of modest social guarantees would be useful in further equalizing the economy and encouraging more people to consume. Hansen extended Currie's ideas even further by depicting inadequate private spending and investment as a long-term concern. Currie stressed the necessity for savings offsets based on cyclical demands. Hansen carried Currie's ideas even further. The focal points of a government-led economy would be the newly constituted fiscal advisory board and the National Resources Planning Board, to which both were linked (Sandilands, 1990).

As the 1930s came to a conclusion, Hansen's theory of secular stagnation dominated most of the economic debate. The economist, who was born in Minnesota, believed that fluctuations in the business cycle occurred as a reaction to the progression of technology as well as an imbalance in the stock of capital and labor. He believed that the recession that began in 1929 and lasted until 1937 was an unnecessarily long dip in the business cycle. Early on, Hansen took the same approach to the problem as the Wisconsin school did, which was to provide social support for individuals who are ill, aged, or jobless. However, he arrived at the conclusion that public capital spending was necessary as a long-term supplement to inadequate investment in the private sector due to the severity and durability of the slump. He came to this conclusion as a result of his observation that public spending on capital was necessary (Hudecz, 2017).

Long-term federal subsidies were required for capital expenditures in industries such as machinery and equipment, long-lasting products, housing construction, public works, regional resource development based on the TVA model, highways, and other industries of a similar nature in order to achieve full employment. Additionally, it called for greater community investment in the English model of public health, hospitals, education, affordable housing, sewage systems, and pollution control. These expenditures could be compensated for throughout the span of an economic cycle, the lifetime of long-term initiatives, or by putting in place a system that utilizes two separate budgets. Hansen also pushed for lower social insurance taxes, a reduction in consumer expenditure, and a change to a pay-as-you-go system backed in part by general revenue. It would be more effective to replace federal, state, and local excise taxes, which also serve to reduce consumption, with increased taxes on incomes earned by those in the middle class. In addition, the Hansen agenda advocated for interest rates on mortgages backed by the Federal Housing Authority to be lower than the market rate and for tax policy to be simplified in order to reduce the amount of uncertainty faced by corporations (Anselmann, 2020).

3.3 Lessons learned and subsequent development of crisis recovery

In recent years, a sizeable number of historians have attributed the United States' ability to recover from the Great Depression to a "Third New Deal" that was created during World War II as a reaction to the depression that occurred between 1937 and 1938. This Americanized version of Keynesianism was created in response to the Great Depression. We are led to assume that the magnitude of the government's investment during the Second World War supported Keynes's support for a compensatory economy, which entails substantial public spending to prevent future depressions and sustain full employment. This aspect of the Third New Deal thesis, along with other aspects of the theory, does not sufficiently address the reasons for the postwar economic dominance of the United States as well as the foundation upon which the postwar recovery was built (Cole & Ohanian, 2004).

According to Keynes's conception of a full employment economy, it would permit large public investment in self-sufficient, publicly traded enterprises that operated independently of governmental control and would accept an unemployment rate of between 3 and 5 percent. He emphasized countercyclical public investment as crucial to economic stability, despite the fact that he was not a fan of long-term deficit expenditure. For the purpose of achieving financial equilibrium, two separate budgets—one for the government's current account and one for its capital account—would be utilized. Using the labor account would not result in the production of any work. It would employ between 7.5% and 20% of the national revenue toward the creation of a national infrastructure that boosted quality of life, such as housing and power as examples. This would be done in order to improve the quality of life for all citizens.

Keynes believed that the best way to protect against another economic downturn in the future was to take precautions against liquidity preference by enacting a policy that provided high and stable wages for consumers and an acceptable return on investment. A budget balance would be achieved by moving surplus funds from the current budget to the capital budget. This would make it possible for the government to maintain expenditure levels that are countercyclical. When demand dropped, capital spending would increase, which would ultimately result in higher tax returns, which would eliminate the current account deficit.

The United States government's post-World War II fiscal plan did not incorporate any Keynesian ideas or principles. When expressed as a percentage of total economic output, the gross capital creation of state businesses reached its all-time high of 3.5 percent during the years 1962 to 1972, following which it ranged between 2 and 3 percent on average. While increases were seen in defense spending, social benefits, and unemployment, there was a reduction in capital formation. As a result of this, the United States entered a condition known as "Ponzi finance," which was first coined by the economist Hyman Minsky (Minsky, 1995).

This condition is characterized by the requirement for external funding of federal deficits, the current-account deficit, and interest on earlier debt at a proportion of GDP that is increasing. Despite the fact that significant public spending during the Second World War increased private savings, which in turn fueled the postwar recovery in the United States, between 1941 and 1945, when the war ended, there was a defense buildup and federal budget spending increased from $13 billion to $92 billion. During this time period, the size of the United States military also increased. The deficits increased by a factor of eight, from $6 billion to $47 billion, while the entire amount spent on the military was $320.3 billion, which is equivalent to 31.9 percent of GNP. From 36.2 million to 40 million, there was a near 3.8 million person rise in the overall number of individuals working in non-agricultural occupations (Rhode, 2003).

The number of people working in industries other than agriculture rose from 23.3 million in 1932 to 32 million in 1940, representing an increase of 8.7 million jobs (Lebergott, 1957). According to the data provided by the Bureau of Labor Statistics, the number of jobs requiring a payroll increased by approximately 45% during the first term of President Franklin D. Roosevelt, just over 20% during his second term, and 8% during his third term, which coincides with the Second World War. Employees in non-agricultural occupations reached over 52 million during the immediate postwar years, which were characterized by minor budget surpluses and deficits as well as expenditure levels that never surpassed wartime peaks; average weekly salaries increased steadily to $82.39 by 1957 (Grossman, 1978).

The years immediately following World War II were characterized by expenditure levels that never surpassed wartime peaks; employees in non-agricultural occupations reached over 52 million. The greater manufacturing average weekly salaries give, according to the United States Bureau of Census, a flimsy rationale for the purported economic advantages that were realized as a result of the Second World War. Earnings rose from $17.05 in 1932 to $25.02 in 1940, on the basis of working an average of little more than 38 hours each week. Between the years 1941 and 1945, weekly manufacturing salaries rose from $29.58 to $44.39, representing an increase of approximately $15. This gain was based on workweeks of 40.6 and 43.4 hours, respectively. In spite of the fact that the consumer price index for urban consumers did not vary significantly throughout the 1930s, it increased by almost 78% during the war years and surpassed the growth in pay. On the other hand, productivity is not measured by an increase in working hours or a nominal rise in income.

Late in the war, unemployment dropped to almost nothing, although the reason for this drop is primarily attributed to the fact that 16 million people were absorbed into the military and the civilian labor force that supplied defense demands rather than the capital that was required to make consumer products after the war. The real GDP increased from 100 in the base year of 1939 to 119 in the years before the war. Following the war, it enjoyed tremendous development and reached 152 in the base year of 1948. The subsequent decline in real GDP was brought on by the conflict. The insistence, on the part of proponents of the Third New Deal, that the impacts of expenditure during the war on regional economic balance was the primary focus demonstrates an aversion to looking back at innovations of the past. Despite the fact that this circumstance led to inequalities in regional income, the average household income in urban communities in mountainous and plains regions was comparable to that of urban areas in other parts of the country (Jeffries, 1996).

During the period between the wars, the average income of those working in agriculture was just half of what was experienced by those working in all other industries combined. The fact that Roosevelt believed the American economy was similar to the economy of Great Britain demonstrates that he was aware of regional economic imbalance from the beginning of the New Deal. This is demonstrated by the fact that the exploitation of the South and the West by eastern finance as well as by manufacturers and processors of raw materials situated in the northeastern quadrant is a situation that is typical of Britain's relationship with the dominions.

The Roosevelt budgets of the 1930s reflected federal spending for the development of the Tennessee and Columbia River valleys as well as countless smaller-scale programs such as the Santee-Cooper in South Carolina and for the construction of rural roads, urban streets, dams, highways, tunnels, bridges, and other components of infrastructure. These budgets supported urban to rural transfers for initiatives such as rural electrification. These budgets also reflected federal spending for rural electrification. Even before the United States entered World War II, the National Resources Production Board had already made plans to locate factories in the southern and western regions of the country. In this particular instance, though, massive investment on the military helped speed up such programs (Brinkley, 1998). Although the process had begun earlier in the South and Southwest, where pockets of poverty lingered, and was less effective in the Old South, where public expenditure during the war converted the trans-Mississippi West and the South into diversified economies, the Old South was less effective.

During the war, a better economic mix was produced as a result of the placement of military sites and research facilities, the creation of new steel manufacturing facilities in the West, the fabrication of metals such as steel and aluminum, shipbuilding and aviation manufacturers, and road construction. In addition, the war resulted in the construction of thousands of miles of new roads. Similar growth in the South, which was partially financed by the federal government and partially by the private sector, led to the production of steel and aircraft, the development of petrochemical facilities, shipbuilding, and the emergence of a higher degree of general prosperity, particularly in the Southwest.

As a result of the construction of new military posts and defense enterprises by the government in the southern states after the war, those states emerged as an important source of production for the defense industry. This strategy was responsible for a considerable increase in the flow of labor and financial resources into metropolitan regions. Even if it did contribute to the development of a more equal national economy, improved internal balance was not the primary driver of post-World War II economic recovery or American primacy in international affairs.

This is true despite the fact that it did contribute to the development of a more equal national economy. The timeline of the third New Deal theory is unduly constricted, and it disregards the work of economists who investigate economic trends throughout longer swings in the business cycle and define productivity as the ratio of output to work time. In addition, there are no global comparisons that can be made. As a direct result of Britain's victory over Napoleon, the nation spent the next century at the forefront of industrial advancement across the globe. By the middle of the 20th century, financial dominance had been established, which made it possible for the City of London to oversee unrestrained trade. Sterling provided a secure and convertible reserve currency due to the fact that income from international trade were created by a variety of services including insurance, finance, and shipping. Despite this, local investment in newly developing industries suffered as a direct result of revenues generated by investors from outside the country. This representation evolved as a result of the aftereffects of the First World War. The United Kingdom was weakened both by the loss of manpower and by the need to sell domestic and international investments in order to cover the costs of the war.

The country's economy suffered greatly as a direct result of the return to gold. Throughout the entirety of the interwar period, or probably even earlier, the economic position of the United States was superior to that of Britain in terms of productivity and technological advancement. The efforts of Eastern financiers and the Federal Reserve System to improve Britain's financial condition, the latter of which attempted to do so by implementing a policy of low interest rates, were unsuccessful in changing the country's current financial predicament. After the Great Depression, the chancellor of the exchequer, Neville Chamberlain, initiated a policy of empire protection and pound devaluation, also known as abandoning its duty in upholding open markets. He did this because he assumed that domestic producers would not be able to compete effectively in the global economy.

According to James P. Warburg and Lewis W. Douglas, the Roosevelt administration faced two options: either it could rely on self-control, reflation, and unilateral dollar devaluation until global conditions changed, or it could accept deflation at great expense in order to maintain open trade and monetary stability by remaining on gold. The decision that Roosevelt made to embrace the latter method can be explained by the fact that the United States is not overly dependent on exports beyond the requirements of its wheat and cotton growers. In the face of significant unemployment and protests from farmers, the president made the decision to sacrifice less labor-intensive technologies in favor of more labor-intensive ones in order to defend inefficient industries and agriculture, both of which were major job providers at the time. This compass helped illuminate two core perspectives with regard to the appropriate position of the United States in the economic system of the rest of the world (Sargent, 1973: pp. 92-110).

In the 1930s, tremendous increases in productivity were seen across the board, particularly in the private and governmental sectors, and this was mostly attributable to the acquisition and use of new technological knowledge. This includes the utilization of petrochemicals, nylon, Lucite, and Teflon, in addition to the breakthroughs made in the domains of transportation, communications, service, and telephony. In addition, government agencies built dams, bridges, tunnels, and residences out of concrete and steel under the direction of the Federal Housing Authority. The FHA oversaw all of these construction projects. The majority of the work that needed to be done on streets and highways between 1929 and 1948 was completed before World War II.

This was done in order to boost postwar house construction, which had been halted during the war. The prewar innovations in organizational procedures that were pioneered in the production of radios, vacuum cleaners, and automobiles had an impact on the wartime productivity levels that were anticipated by the War Production Board. These levels were based on the output of aircraft and shipbuilding, both of which depended on government investment. Improvements made during the war to welding procedures and technology for working light metals, notably aluminum, were particularly important to the production of airplanes and ships. These advancements were particularly important for dealing with aluminum. In general, the concentration on military requirements resulted in a loss of experienced workers, managers, and equipment for the private sector, which had a negative impact on the productivity of the sector for civilian uses.

The American Century was dependent on productivity dominance as a result of investments in new technologies, applied research and development, the construction of institutions like the Massachusetts Institute of Technology dedicated to the advancement of the sciences, and a broad emphasis on public education at the secondary and later university levels. All of these factors contributed to the rise of the United States as a global power during the 20th century. At the same time, monetary and fiscal policy, along with the assistance of social insurance, helped to stimulate demand, which in turn helped to smooth out the cycle of economic activity. The United States led the world in average per capita income during the first half of the 20th century as a result of its superior productivity; however, the innovations that emerged during the Great Depression laid the groundwork for postwar productivity levels and GNP levels that were significantly higher than those in Europe, the United Kingdom, and Japan.

Conclusion

The Great Depression was a catastrophic economic event that began in 1929 and lasted until 1939. It was particularly severe in the United States of America, but its effects were felt all around the world. The crisis began with a fall in the stock market in 1929 and swiftly developed into a global financial crisis, which caused a significant decrease in credit and demand. The Great Depression was brought on by a combination of a number of causes, the most important of which were the uneven distribution of wealth, the absence of regulation in the financial sector, and the breakdown of the international monetary system.

The first step in the government's response to the crisis was to attempt to restore trust in the banking system and to stabilize it. A contractionary monetary policy was first adopted by the Federal Reserve, which is the central bank of the United sStates. This strategy did nothing but make the crisis even more severe. In response to the deteriorating circumstances, President Herbert Hoover instituted a number of programs that were designed to stimulate the economy; nevertheless, these efforts were unsuccessful in bringing about a recovery that was sustainable.

Due to the fact that many families had taken out loans in order to acquire consumer items and houses, household debt was a crucial factor that contributed to the development of the crisis. As the economy began to collapse and unemployment began to rise, many families found themselves in a position where they were unable to repay their loans, which resulted in a wave of defaults and foreclosures. Because of this, credit and demand both shrank even further, which made the already precarious economic position even worse.

The administration of President Franklin D. Roosevelt put into effect a set of programs collectively referred to as the "New Deal." These policies were devised with the goal of minimizing the adverse effects of the economic crisis and bringing about a durable recovery. The programs enacted under the New Deal were focused on achieving three primary objectives: relief, recovery, and reform. The relief programs gave direct assistance to those who were jobless and were members of society who were among the poorest, while the recovery programs focused on increasing demand and investment in the economy. The purpose of the reform initiatives was to address the fundamental causes of the crisis by imposing new rules on the financial industry and encouraging a more equitable distribution of wealth.

The establishment of the Social Security Administration, which served as a safety net for those of retirement age and those without jobs, was one of the most significant initiatives enacted under the New Deal. Other government initiatives, such as the Works Progress Administration and the Civilian Conservation Corps, created employment opportunities for the jobless and contributed to an increase in overall economic demand. The New Deal also included reforms such as the Banking Act of 1933 and the National Industrial Recovery Act, both of which aimed to increase investment in the economy and improve working conditions. Both of these acts were enacted in 1933. The Banking Act of 1933 strengthened the regulation of the financial sector.

The programs enacted under the New Deal were mostly successful in reducing the severity of the crisis's adverse effects and ushering in a period of sustained economic recovery. The economy began to expand once again, which resulted in a drop in the unemployment rate. However, the New Deal's full advantages were not realized until World War II, when a large increase in government expenditure led to full employment and a robust economy. Prior to this time, the benefits of the New Deal were only partially realized.

The experiences that people had throughout the Great Depression provided valuable lessons that may still be used now. The crisis brought to light the necessity of addressing the unequal distribution of wealth as well as the significance of having adequate regulation in the financial industry. It also demonstrated the significance of having a safety net in place to provide assistance to the most helpless sections of society, as well as the requirement for government action during times of economic turmoil. The policies enacted during the New Deal serve as a paradigm for how the government might take effective action to alleviate the adverse effects of economic crises and create a durable recovery. These policies were implemented during the Great Depression.

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