Whenever we mention how far the global economy has come today, we cannot leave the Great Depression out of our discussion. This is because it was the greatest economic decline ever experienced in history. It majorly affected the US market but its impacts traveled throughout the world to cause a serious financial crisis, including unemployment, output declines, and acute deflation.

Some of the new entrepreneurs might not understand how serious the situation was. However, those who survived the “Depression” are the only ones who can tell what it was and what caused the Great Depression. As such, this article travels back in time and explores the meaning of the Great Depression, the causes, and its aftermath.

What was the Great Depression?

The Great Depression was the global economic downturn that occurred between 1929 and 1939. It marked the longest period of severe depression and financial crisis ever experienced in the industrialized Western world. The Great Depression started after the crash on the stock market in October 1929 which sent the entire Wall Street into a panic while millions of investors went into losses and were wiped out. What was experienced next for several years were drops in consumer spending and investments, declines in industrial output, and increased unemployment levels.

When the Great Depression reached its lowest point by 1933, 15 million Americans were unemployed while nearly half of the country’s banks were closed. These effects were not only experienced in the US as the impact of the Great Depression stretched to the rest of the world, leading to acute deflation in almost every country. However, the United States faced the harshest adversity of the Depression, triggered by the Civil War.

The Timing and Economic History

The effects of the Great Depression varied across states. For instance, the Depression was long and severe in the United States and Europe and milder in Japan and Latin America. What caused the depression could also be linked to how its effects varied across the states. For example, **declines in consumer demands**, **financial panics**, and **poor government policies** caused a serious economic downturn in the US. On the other hand, the **gold standard** that linked almost all countries in the world was the major transmitter of the American economic downturn to the rest of the world.

In the United States, the Great Depression started as an ordinary economic recession in the 1929’s summer. It, however, became worse in late 1929 and lasted until 1939. Within this period, the United States' industrial production dropped by 47% while the Gross Domestic Product (GDP) declined by 30%.

Although there is still a debate on how serious the Depression was and the reliability of the statistics produced, it is undeniable that the unemployment rate went above 20%. Therefore, most people will understand the severity of the Great Depression when compared to the latest **Great Recession** of 2007 to 2009 that caused the country's GDP to drop by only 4.3% while the unemployment rate hit 10% at its highest point.

Causes of The Great Depression

As mentioned above, the key factor that influenced the Great Depression in the US is the decline in consumer demand. This can be referred to as a decline in **aggregate demand** which led to drops in the industrial output. The sources of consumer recession varied during the Depression period but piled up in a drop in aggregate demand which spread to other countries through t**he gold standard**. However, the major causes of the Great Depression can be expanded as follows:

The Stock Market Crash

The first decline in consumer demand in the summer of 1929 is believed to be caused by the tight and unfavorable monetary policies in the US. These policies were aimed at limiting stock market speculation. Although the 1920s were the most prosperous years in the US, the same could not be enjoyed by the stock consumers. For instance, the stock prices rose above the fourfold from the low in 1921 to the highest in 1929. Between 1928 and 1929, **the Federal Reserve** increased the interest rates, aiming to slow the rapid rise in stock prices.

These higher interest rates, however, led to depressed interest-sensitive consumers in sectors like construction and automobile. This in turn reduced the production output. By the fall of 1929, the stock prices reached unjustifiable levels without future expectations of increased earnings. This led to the loss of confidence among investors as a result of the decline in prices in October 1929. Next, there was a panic selling or the "**Black Thursday**" that began on October 24, 1929, where many stocks were purchased on loans secured by a small fraction of the stock's value.

Some investors were also forced to liquidate their holdings when they anticipated the fall in prices. This led to the US stock prices falling by 33% between their peak in September and their low in November. This historic drop was recorded as the **Great Crash of 1929**. Again, while the Great Crash of 1929 and the Great Depression are recorded as two different events, the stock market crash played a major role in the decline in employment and production output in the US.

The Gold Standard

The second major cause of the Great Depression is believed to be the Federal Reserve's fight to preserve the gold standard. According to the gold standard, every country set its value of the currency based on the value of gold and took every monetary action to defend its fixed price. Therefore, it is believed that the Federal Reserve declined to expand the money supply in response to the banking panics to preserve the confidence the investors had in the US. Expanding the money supply would lead to large gold outflows, forcing the US to devalue the gold.

Again, if the Federal Reserve had not restricted the money supply in the fall of 1931, it is believed there could be an attack on the dollar and the US would be forced to abandon the gold standard along with Great Britain. Therefore, stressing the gold standard transmitted America's economic decline to the rest of the world. This is because the limitations of the Federal Reserve to expand the money supply increased the financial crisis and banking panics in other countries. These further depressed industrial output and commodity prices in many countries.

The Great Depression Aftermath

The greatest impact of the Great Depression was human suffering. Within that shortest time, there was a great decline in the living standards accompanied by the precipitous decline in the world's output. For instance, nearly a fourth of the global labor force was unemployed by the 1930s. Although there was an improvement by the mid-1930s, total recovery was recorded at the end of the decade.

Other effects of the Depression included economic disorders, the rise of totalitarianism, and the coming of the world war. These impacts are remembered in different ways in various parts of the world. For example, the Depression is believed to cause the worst drought in American history, the **Great Pains** in 1934. It also opened the perfect environment for the Nazi seizure of power and fascist empire-building due to increased political instability, economic devastation, and the vulnerable populace.