

3. THE INTERWAR WORLD

The Crash

By the late 1920s, the United States, Britain, and France had all recovered from World War I. Each country's economy was relatively stable. Soon, however, disaster struck.

In 1929 the United States stock market crashed and set off a worldwide economic depression. The crash was the result of overconfidence in the prosperity of the 1920s, a belief that the good times would never end.

During the 1920s, Americans invested millions of dollars in the stock market. Stock prices rose dramatically.

Even in the late 1920s, when the farm economy weakened and some industries deteriorated, Americans continued to invest in stocks, often with borrowed money.

The investments quickly came to a halt in October 1929 when concerns that stock prices were rising too rapidly became widespread. On October 24 a panic of

selling hit the stock market. Investors tried desperately to unload stocks that were grossly inflated in value.

The torrent of selling continued for weeks. Stock prices fell dramatically, causing losses of \$30 billion to stockholders.

A widespread economic crisis that came to be called the Great Depression followed on the heels of the crash. Businesses went bankrupt and factories around the country closed. By 1932 about twelve million Americans were unemployed and about 5,000 banks closed down.

Despite the speed of the collapse, the initial reaction to the situation in the United States was conservative. Americans believed that if they tightened their belts and worked hard, the economy would recover as it had so many times before. The Great Depression, however, would prove to be far worse than any previous economic downturn.

In 1932 Franklin D. Roosevelt was elected president. He promised to try to solve the crisis with a radically new program called the New Deal.

"Black Tuesday" marked the most catastrophic day in stock market history, bringing down with it the flimsy European credit markets.





The object of the New Deal was to make the U.S. government much more active in stimulating the American economy. Roosevelt proposed to use government spending to revitalize basic industries, create new jobs, and help the needy. Many new government agencies and programs were set up during the New Deal.

The New Deal did not immediately pull the U.S. out of the depression. It did, however, slow the rapid economic decline that characterized the early part of the 1930s. Under Roosevelt the U.S. was more determined than ever to rebuild.

Meanwhile, the effects of the depression had spread to Europe. Just as they had recovered from the crisis of World War I, the Europeans were stung by the Great Depression.

Germany was the first European country to feel the effects of the depression. American banks had loaned Germany tremendous amounts of money to aid in the rebuilding process after the war. When the depression hit, the bankers demanded immediate repayment of the loans.

The Germans were not prepared to pay back the loans right away, and their economy suffered under the strain of trying to do so. In 1931 the German people lost confidence in their banks and started withdrawing deposits in huge numbers. This run on the banks quickly affected other sectors of the economy. By 1933 six million Germans were out of work, and industrial production was half of what it had been in 1929.

Because all of the industrialized countries of the world were economically interdependent, the crisis in Germany immediately rebounded to other European countries and to the United States. German bank failures had a drastic effect on banks in Britain, France, and the United States.

Britain was particularly hard hit. The British were already falling behind the rest of the world industrially. Their old industries were extremely vulnerable to an economic slowdown.

From the end of 1929 to the middle of 1931, unemployment in Britain increased

Unemployment in the United States reached four million by January 1930.

3. THE INTERWAR WORLD

The Crash

from about a million to almost three million. The British responded by forming the “national government”—a coalition of Labourites and Conservatives. Under Labour leader James Ramsay MacDonald, the coalition tried to stimulate British trade and reduce government expenditures.

Nevertheless, those measures failed to lift Britain out of its slump. Unemployment remained high, and the British pound continued to drop in value. In 1935 MacDonald resigned as prime minister.

The coalition government, however, stayed in power under the control of the Conservatives. Conservative leader Stanley Baldwin became prime minister.

In 1935 and 1936, the British managed to pull out of the worst of the depression. By 1936 Britain had achieved stability, if not prosperity.

In France, on the other hand, the depression led to political and economic instability. The French came out of the economic crisis divided and confused.

France had a strong economy in the late 1920s and early 1930s, but French dependence on international trade meant that the country could not escape the depression.

Politically, the economic downturn led to the formation of extremist groups in France on both the right and the left.

On the right was the *Action Francaise*, a group dedicated to the reestablishment of the French monarchy. Another rightist group was a veterans’ organization called the *Croix de Feu*, meaning “Cross of Fire.” In the mid-1930s, both of these groups organized anti-government demonstrations that often turned violent.

On the left, the Socialist and Communist parties gained strength. In 1935 these two parties joined forces for the first time. They formed a coalition called the Popular Front.

By 1936 the French people wanted a recovery program to match the American New Deal, and they looked to the Popular Front to provide it. In parliamentary elections that year, the Popular Front took power under the leadership of Socialist Leon Blum.

Blum introduced an ambitious reform program that included nationalization of some of France’s main industries. But that



As head of a leftist French coalition known as the Popular Front, Leon Blum instituted many socialist reforms in 1936-1937.

program served only to further divide the French people.

Many French workers, especially those on the far left, believed that the reforms did not go far enough. However, French business leaders believed that the reforms gave too much power to workers and raised taxes excessively.

The rift caused by Popular Front policies quickly led to its demise. Blum was forced to resign in March 1937. The Popular Front fell apart.

In the late 1930s, the French faced a number of problems. Their economy and society had yet to recover from the drastic effects of the Great Depression. At the same time, expansionist governments in Italy and Germany threatened the peace and security of Europe. World War II loomed on the horizon, and French leaders had every reason to be concerned.

3. THE INTERWAR WORLD: REVIEW

The Crash

A. Terms

DIRECTIONS: Match each phrase to the term it defines.

- a. Great Depression
- b. New Deal
- c. “national government”
- d. *Action Francaise*
- e. *Croix de Feu*
- f. Popular Front

- _____ 1. coalition of Labour and Conservative leaders in Britain
- _____ 2. coalition of Socialist and Communist parties in France
- _____ 3. Franklin Roosevelt’s program to deal with the economic crisis in the United States
- _____ 4. veterans’ organization in France
- _____ 5. name for the worldwide economic downturn that started in 1929
- _____ 6. group dedicated to the reestablishment of the French monarchy

B. People

DIRECTIONS: Match each phrase to the person it describes.

- a. Franklin Roosevelt
- b. James Ramsay MacDonald
- c. Stanley Baldwin
- d. Leon Blum

- _____ 7. leader of the Popular Front in France
- _____ 8. American president who introduced the New Deal
- _____ 9. Labour leader of Britain’s “national government”
- _____ 10. Conservative leader of Britain’s “national government”

3. THE INTERWAR WORLD: REVIEW

The Crash

C. Classify

DIRECTIONS: The Great Depression not only affected the United States, but the aftermath was felt in other nations as well. The following diagram shows the results of the depression in four countries: France, Germany, the United States, and Great Britain. Write the names of the countries which each group of phrases describes on the lines provided below.

THE GREAT DEPRESSION

bankrupt businesses
closed factories
12 million unemployed
5,000 closed banks

repayment of U.S. loans difficult
loss of confidence in banks
run on banks
6 million unemployed
industrial production cut in half

unemployment increased to 3 million
the pound dropped

economic downfall due to dependence on
international trade
formation of extremist groups

D. Short Answer

DIRECTIONS: Respond in the space provided.

Briefly explain the causes of the American stock market crash.