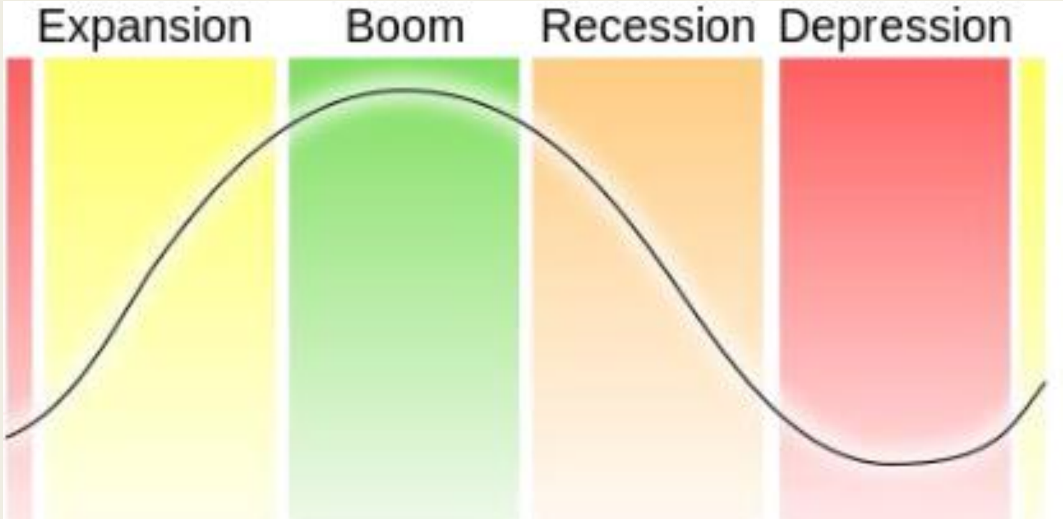
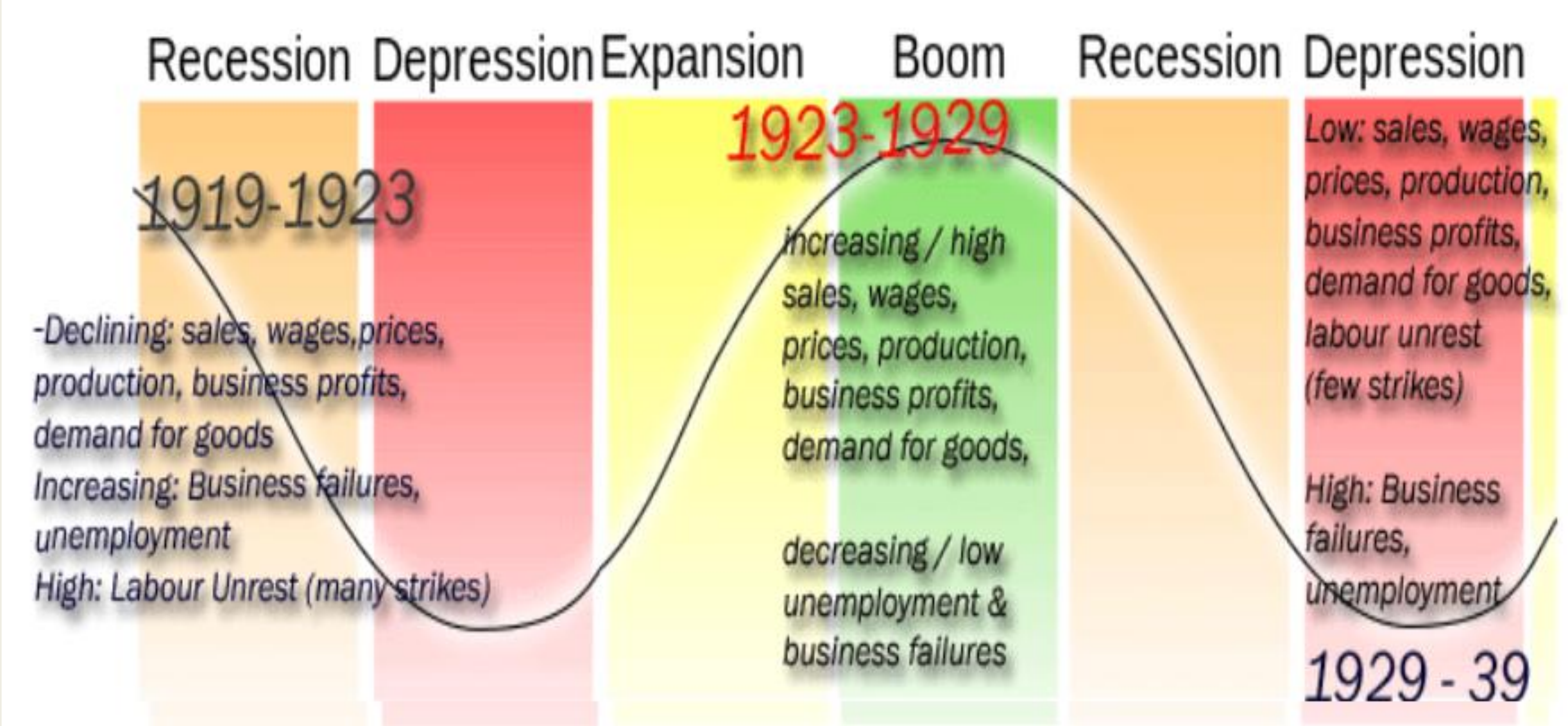
THE GREAT DEPRESSION

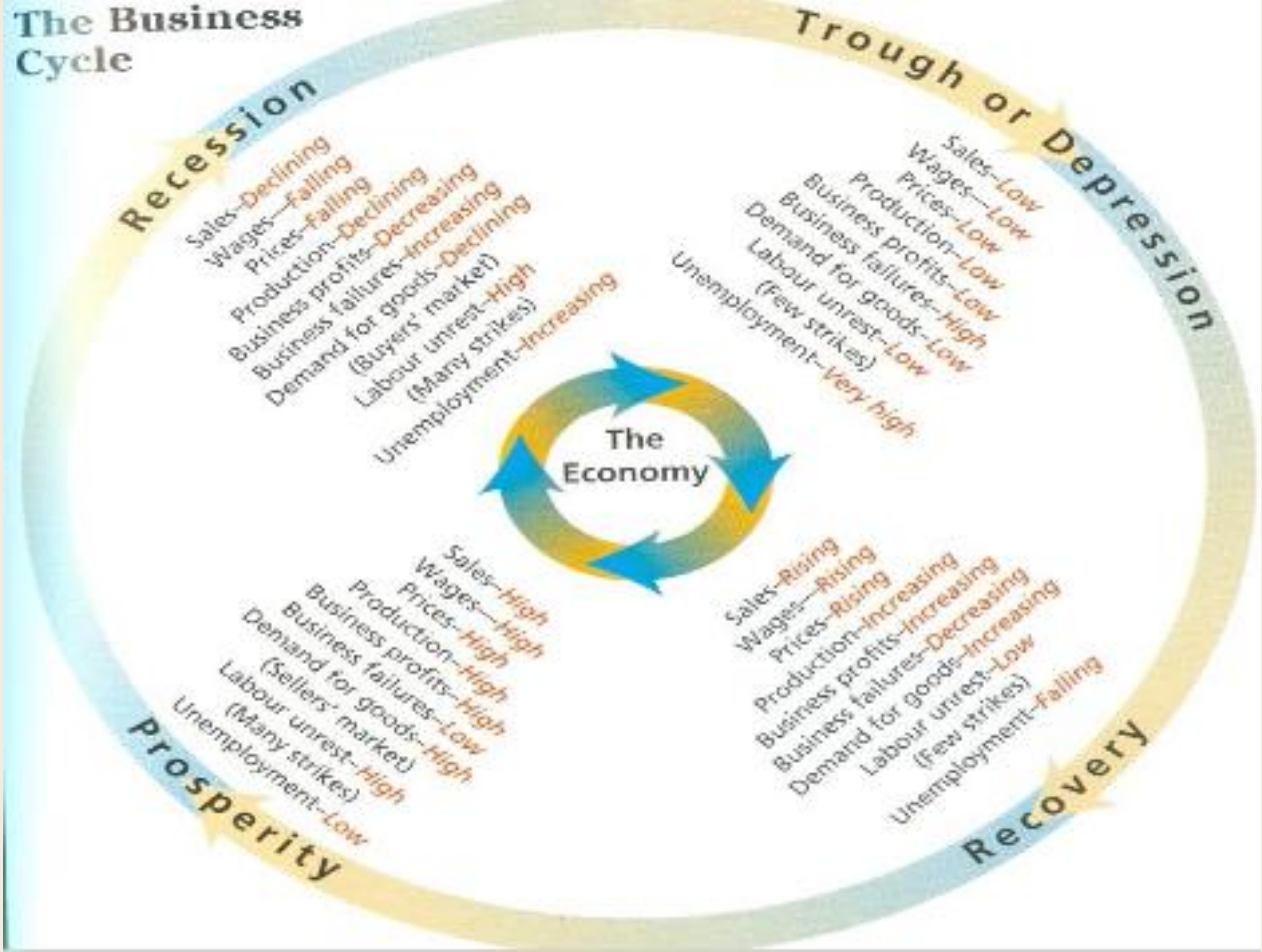
The Business Cycle

- Economic conditions constantly change, in other words there are good times and bad times, economists call these upswings and down swings the business cycle.

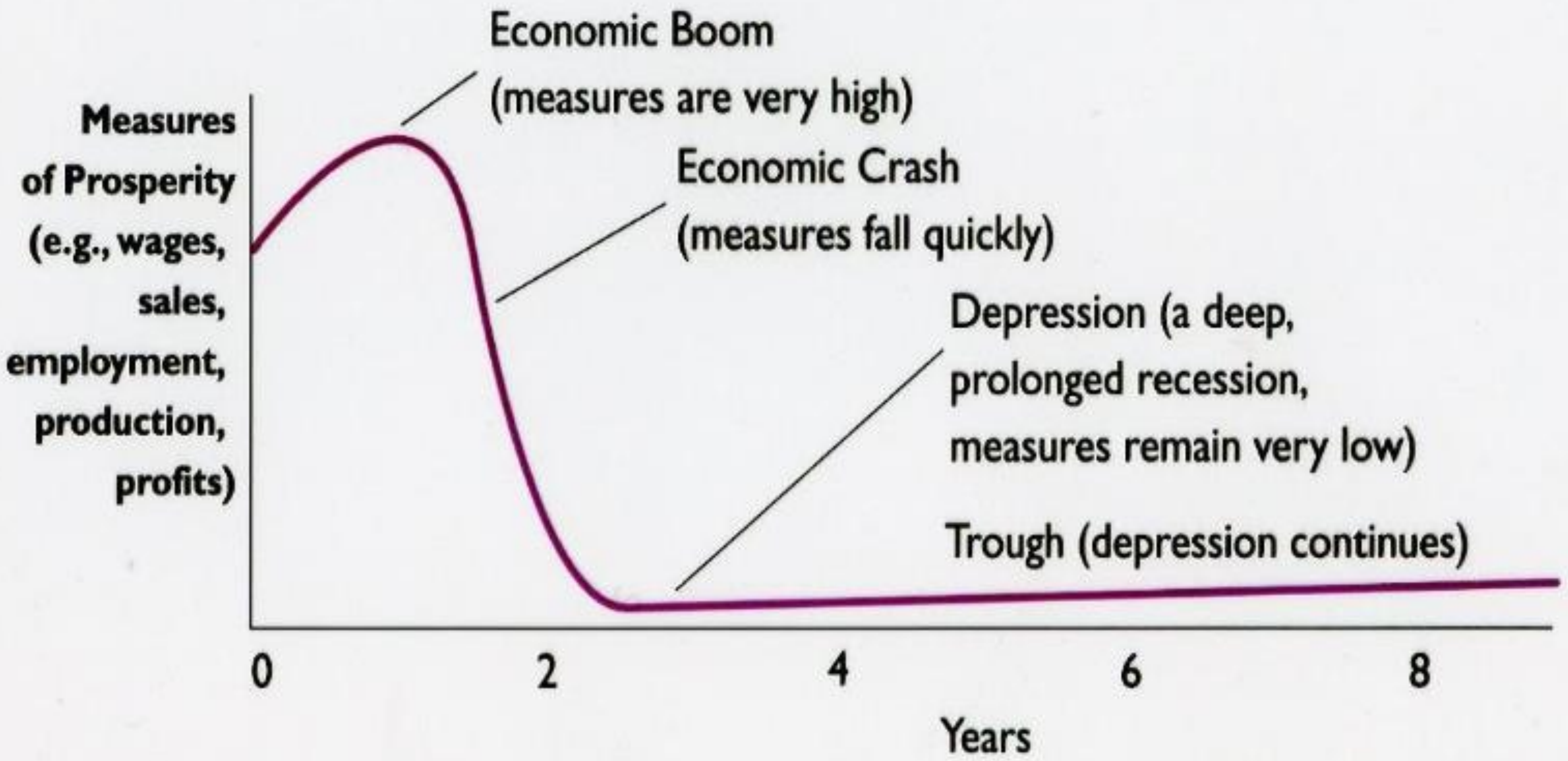
- There are four basic stages to the cycle:
  - *Recovery (Expansion)*
  - *Prosperity (Boom)*
  - *Recession*
  - *Depression (Trough)*




Recession
Depression
Expansion
Boom
Recession
Depression
1919-1923
1923-1929
-Declining: sales, wages,prices, production, business profits, demand for goods
Increasing: Business failures, unemployment
High: Labour Unrest (many strikes)
increasing / high sales, wages, prices, production, business profits, demand for goods,
decreasing / low unemployment & business failures
Low: sales, wages, prices, production, business profits, demand for goods, labour unrest (few strikes)
High: Business failures, unemployment
1929 - 39



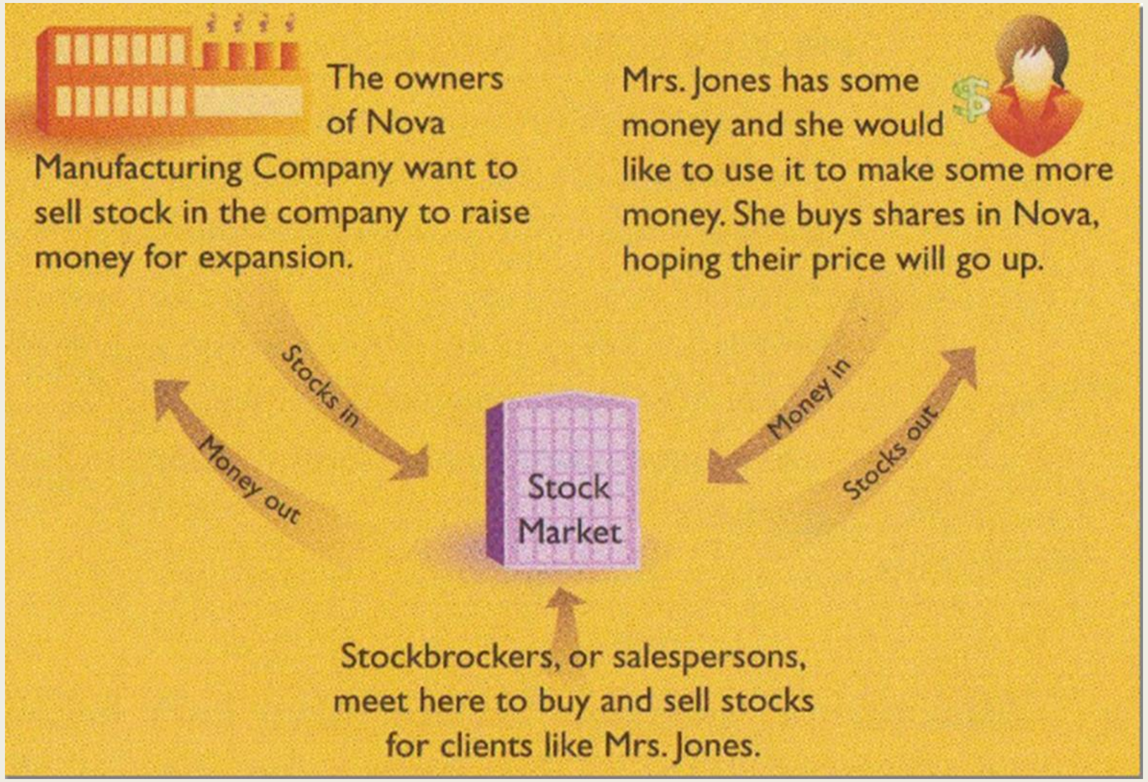
The Business Cycle
Recession
Sales–Declining
Wages—Falling
Prices–Falling
Production–Declining
Business profits–Decreasing
Business failures–Increasing
Demand for goods–Declining
(Buyers' market)
Labour unrest–High
(Many strikes)
Unemployment–Increasing
Trough or Depression
Sales–Low
Wages—Low
Prices–Low
Production–Low
Business profits–Low
Business failures–High
Demand for goods–Low
Labour unrest–Low
(Few strikes)
Unemployment–Very high
The Economy
Prosperity
Sales–High
Wages—High
Prices–High
Production–High
Business profits–High
Business failures–Low
Demand for goods–High
(Sellers' market)
Labour unrest–High
(Many strikes)
Unemployment–Low
Recovery
Sales–Rising
Wages—Rising
Prices–Rising
Production–Increasing
Business profits–Increasing
Business failures–Decreasing
Demand for goods–Increasing
Labour unrest–Low
(Few strikes)
Unemployment–Falling


Economic Boom
(measures are very high)
Economic Crash
(measures fall quickly)
Depression (a deep,
prolonged recession,
measures remain very low)
Trough (depression continues)
Measures
of Prosperity
(e.g., wages,
sales,
employment,
production,
profits)
0
2
4
6
8
Years

Stock Market Explained

Stock Market Explained

- **The owners of Nova Manufacturing Co. want to expand:**
  - *To get the money they need, they sell stocks in the company*
  - *People who buy the stock will receive a part of the profits of the company depending on the number of shares they own (dividend)*
  - *If the company is profitable, the value of the stock will rise*
  - *Then the stockholder may choose to sell shares at a profit or hold on to them, hoping the value will increase even more*



The Stock Market – 1920s – 30s

- ***During the 1920s, a stock market boom developed as the price of stocks increased in value***
  - *In 1929 Canadian investors were very confident that stocks would remain high despite some notable economic problems*
- ***By September, American stock market shares began to drop & Canadian stock values followed.***
  - *This signaled the beginning of a major economic recession that would affect all of the industrialized workd!*

Stock Market Crash

- Worried investors began to lose confidence in the companies whose shares they had purchased & many wanted to sell their stocks quickly before prices decreased any further
- As investors began selling large volumes of stock, people **panicked & tried to sell their stocks, the values of which fell dramatically**
- By Tuesday October 29th the stock exchanges in New York, Toronto, & Montreal “crashed”.


BLACK TUESDAY

NEW YORK, TUESDAY, OCTOBER 29, 1929

THE STOCK MARKET CRASH OF 1929

BY BARBARA SILBERDICK FEINBERG

Crowds Gathered On Wall Street As The Market Went Into Historical Decline

NEW YORK, OCTOBER 29 — Another hurricane of liquidation hit the stock market today, as financial uncertainty fed on rumor and turned to panic. Frightened investors ordered their brokers to sell at any price, and the stock market crashed. Those on the floor of the Wall Street exchange waded in paper and tried to add up their losses.

It is believed those losses total billions of dollars. Thousands of accounts were wiped out as a record number of shares were traded. Some stocks were almost given away. Millions of shares traded hands.

Brokers on the floor of the Exchange have never seen a day like this. The shock on Wall Street spread to other exchanges and markets. It was a country-wide collapse of security values in which losses were the most disastrous and far-reaching in the history of the Stock Exchange. There was near-panic on the Chicago commodities exchange. Rumors spread from one end of the United

Impacts of the "Crash"

- Many Canadians investors were financially ruined left with stocks that were worth a fraction of their earlier values
- Many Canadian had bought stocks on margin (10% down payment) or with borrowed money & were unable to sell their stocks to pay their debts
- While only a small % of Canadians owned stocks, millions of Canadians were affected by the crash of 1929, the first visible evidence of a worldwide economic collapse that became known as the Great Depression
- Thus, the crash is sometimes referred to a ***both a catalyst and symptom*** of the Depression.

Underlying Causes

- **While the 1929 stock market crash served as a catalyst of the Depression, there were underlying contributing factors. These included:**
  - *Over-production*
  - *Purchasing stock/buying on margin*
  - *Purchasing on credit/high consumer debt*
  - *Overdependence on primary industries*
  - *High tariffs/limited trading partners/ protectionism*
  - *Dependence on the U.S.A. for trade*

Over Production

- During the prosperous 1920s, agriculture & industry reached high levels of production
- Almost every industry was expanding which meant that huge supplies of food, newsprint, minerals, & manufactured goods were produced & simply stockpiled
- The was an over supply while demand was low
  - *Example: 1930 over 400 000 cars produced while 260 000 was the most cars sold in a year*

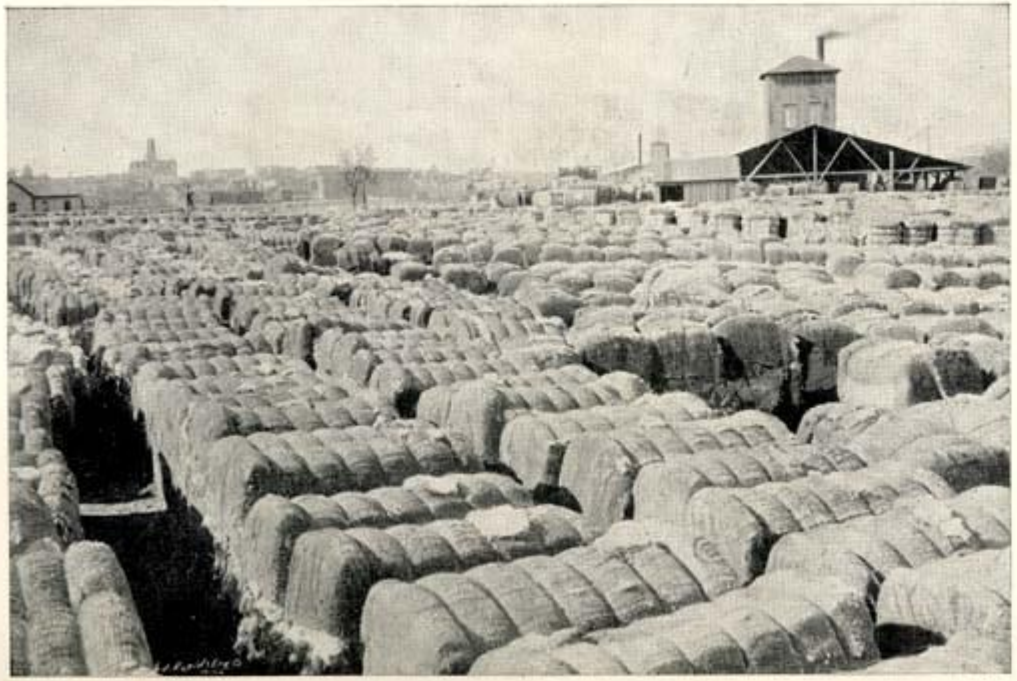


Fig. 8. Cotton Bales as Brought to the Compress.

Over Production - Explained

- Industrialists seemed to have forgotten a basic lesson in economics: *produce only as many items as you can sell*
  - *Even in the general prosperity of the 1920s, Canadians could afford to buy only so many goods*
  - *As a result, warehouses became full of unsold goods, soon the factory owners slowed down production & laid off workers*
  - *The laid off workers & their families had even less money to spend on goods which slowed sales even more.*

High consumer debt and use of credit

- With a wide range of new products available to consumers, many people opted to purchase goods on credit.
  - *New furniture, clothing, sewing machines, and cars were often paid in installments!*

- Mortgage debt also exploded in this era.

- Many who rushed to get into the stock market bought on ***margin*** (a type of credit).

- What would people do when they could pay for the goods they bought?

Overdependence on primary industries and the United States as a export destination

- **Canada's economy was based heavily on primary industries**
  - *Agriculture, logging, fisheries, mining etc.*
  - *What are the downsides of primary resource extraction?*
  - *Why is diversification important?*

- **These primary resources were then exported to other countries (primarily the USA)**
  - *At the time ~40% of Canada's exports were to the USA (Now, 73%!)*
  - *An economic crash in the U.S. inevitably affects Canada.*

Protectionism and High Tarrifs

- US Tariffs implemented in 1930 hurt the Canadian economy more than most other countries in the world.
- Canada retaliated by raising its own rates on American exports and by switching business to the UK
- <u>Tariff</u>: tax on imports or exports between sovereign states.
  - *Why are they used?*
- **<u>Protectionism</u>:** practice of protecting a country's domestic industries from foreign competition by taxing imports.