

ECONOMIC POLICY RESPONSES TO THE GREAT DEPRESSION

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Abstract:

This study explores the Economic Policy Responses to the Great Depression. The Great Depression, spanning from 1929 to the late 1930s, prompted diverse economic policy responses across the globe as nations grappled with unprecedented economic distress. In the United States, President Franklin D. Roosevelt's New Deal marked a significant intervention, introducing a series of reforms and relief programs designed to combat the economic downturn. Key initiatives included the establishment of the Civilian Conservation Corps (CCC) and the Public Works Administration (PWA), which aimed to reduce unemployment through public works projects. The Social Security Act (1935) introduced social insurance for the elderly and unemployed, while banking reforms like the Glass-Steagall Act (1933) sought to stabilize the financial system by separating commercial and investment banking. In the United Kingdom, the abandonment of the gold standard in 1931 allowed for currency devaluation, which helped boost exports and stimulate economic recovery. The National Government, under Ramsay MacDonald, implemented austerity measures to address the fiscal deficit, while also investing in public works to alleviate unemployment.

Germany, under Nazi rule, implemented aggressive economic policies including large-scale public works projects like the Autobahn and rearmament programs. These initiatives not only aimed at economic recovery but also at preparing the country for military expansion. Other nations, such as France, Canada, and Australia, adopted varying strategies including public works programs, currency devaluation, and relief measures to address their economic challenges. France focused on public works and price controls, Canada introduced unemployment insurance, and Australia implemented relief programs and infrastructure projects. Collectively, these responses highlight the global effort to address the economic hardships of the Great Depression, each tailored to national contexts but united in the aim to revive economic stability and growth.

Keywords: *Economic Policy, Responses, Great Depression.*

INTRODUCTION:

Economic policy refers to the strategies and actions taken by governments to influence a country's economic performance and stability. It encompasses a wide range of decisions aimed at managing economic growth, controlling inflation, reducing unemployment, and ensuring financial stability. Economic policies can be broadly categorized into fiscal policy, which involves government spending and taxation, and monetary policy, which deals with the control of money supply and interest rates. Fiscal policy is implemented through government budgets, influencing the economy by altering public spending and

adjusting tax rates. For instance, increasing government expenditure can stimulate economic growth during a recession, while cutting taxes can boost consumer spending and investment. Conversely, reducing spending or increasing taxes might be used to curb inflation and reduce budget deficits.

Monetary policy is managed by a country's central bank and involves regulating the money supply and interest rates to control inflation and stabilize the currency. Lowering interest rates can encourage borrowing and investment, while raising rates can help to cool an overheating economy. Economic policy also includes regulatory measures that impact various sectors, such as trade policies, labor laws, and environmental regulations. These policies are designed to address market failures, promote fair competition, and achieve broader social and economic goals.

OBJECTIVE OF THE STUDY:

This study explores the Economic Policy Responses to the Great Depression.

RESEARCH METHODOLOGY:

This study is based on secondary sources of data such as articles, books, journals, research papers, websites and other sources.

ECONOMIC POLICY RESPONSES TO THE GREAT DEPRESSION

The Great Depression, which began in 1929 and lasted throughout the 1930s, prompted a range of economic policy responses aimed at addressing the severe economic downturn and its consequences. Here are some key responses from various countries:

INDIA

India's response to the Great Depression of the 1930s was influenced by its colonial status under British rule and its economic and political context. While India did not experience the Depression with the same intensity as some Western countries, it still faced significant economic challenges. Here's an overview of how India dealt with the economic crisis:

Economic Impact of the Great Depression on India

1. **Export Decline:** India's economy was heavily dependent on agricultural exports, particularly cash crops like cotton and jute. The global economic downturn led to a sharp decline in demand for these exports, causing a significant drop in prices and impacting the incomes of Indian farmers.
2. **Falling Commodity Prices:** The collapse in global commodity prices affected India's export revenues. This decline in income from exports led to a reduction in foreign exchange reserves and contributed to a broader economic slowdown.

3. **Agricultural Distress:** Indian agriculture, which was already facing challenges due to over-reliance on cash crops and inadequate infrastructure, was further stressed by falling prices and reduced income. This led to widespread rural distress and increased poverty in agrarian communities.
4. **Industrial Slowdown:** While India's industrial sector was less developed compared to Western economies, it was still affected by the global economic downturn. Reduced demand for industrial products and difficulties in accessing capital exacerbated the slowdown in industrial growth.

Policy Responses and Measures

1. British Colonial Policies

Under British rule, India's economic policies were largely determined by the colonial government, which focused on maintaining economic stability and protecting British interests. Key responses included:

- **Currency and Monetary Policy:** The British government maintained the gold standard for the Indian rupee until 1931, when India abandoned it. This devaluation of the rupee helped to some extent by making Indian exports cheaper and more competitive on the global market.
- **Public Works and Relief Measures:** The British administration introduced limited public works programs aimed at providing employment and relief to the affected population. These programs were relatively modest compared to those in Western countries and were often insufficient to address widespread economic distress.

2. Indian Political Responses

Indian political leaders and movements also sought to address the economic challenges posed by the Great Depression:

- **Demand for Economic Reforms:** Indian political leaders, including figures from the Indian National Congress and the All India Muslim League, advocated for economic reforms and policies to support the agricultural sector and reduce the impact of the Depression on ordinary citizens. These demands included measures to increase support for farmers and improve rural infrastructure.
- **Provincial Government Initiatives:** Some provincial governments, under the Government of India Act 1935, began to implement local-level initiatives to address economic problems. For instance, certain provincial administrations undertook limited public works and relief projects.

3. Social and Economic Impact

- **Increased Poverty and Unemployment:** The economic downturn exacerbated existing social issues in India, including poverty and unemployment. The agricultural sector, which employed the majority of the population, faced severe distress, leading to increased rural poverty and migration to urban areas in search of work.

- **Strengthening of Political Movements:** The economic hardships contributed to growing political mobilization and demands for greater autonomy and self-governance. The Indian National Congress and other political parties used the economic distress to garner support for their calls for independence and economic reforms.

4. Long-Term Implications

- **Economic Policy Changes:** The Great Depression highlighted the vulnerabilities in India's economic structure, leading to increased calls for economic self-sufficiency and diversification. Post-independence, India pursued policies aimed at reducing dependence on exports and developing a more balanced economy.
- **Political Momentum:** The economic challenges of the 1930s contributed to the growing momentum for Indian independence, as economic grievances were linked to broader demands for political and social change. The economic impact of the Depression accelerated political movements and reforms leading up to India's independence in 1947.

UNITED STATES

1. New Deal Programs (1933-1939)

The New Deal was a comprehensive series of federal programs and policies introduced by President Franklin D. Roosevelt to address the devastating effects of the Great Depression. This multifaceted approach aimed to provide immediate relief, stimulate economic recovery, and reform the financial system to prevent future crises. Key components included:

- **Civilian Conservation Corps (CCC):** Established in 1933, the CCC was one of the first New Deal programs. It provided jobs for young men in environmental conservation projects such as reforestation, park maintenance, and soil erosion control. This program not only provided immediate employment but also contributed to long-term environmental benefits.
- **Public Works Administration (PWA):** Created in 1933, the PWA was designed to stimulate the economy by funding large-scale public works projects. These projects included the construction of highways, bridges, schools, and hospitals. The PWA aimed to reduce unemployment and provide infrastructure improvements that would benefit the economy in the long run.
- **Social Security Act (1935):** One of the most enduring legacies of the New Deal, the Social Security Act established a system of social insurance to provide financial support for the elderly, unemployed, and disabled. It created the Social Security Administration to manage retirement pensions, unemployment insurance, and aid for dependent children.
- **National Industrial Recovery Act (NIRA):** Enacted in 1933, the NIRA aimed to stimulate industrial recovery and improve labor conditions. It encouraged businesses to cooperate in setting codes of fair competition, which included minimum wages and maximum hours. The act also

established the National Recovery Administration (NRA) to oversee these codes and promote industrial growth.

2. Banking Reforms

The banking sector had been one of the hardest-hit areas during the Depression, with numerous bank failures leading to widespread loss of savings. To restore confidence in the banking system, several key reforms were introduced:

- **Glass-Steagall Act (1933):** This landmark legislation separated commercial banking from investment banking to prevent conflicts of interest and reduce the risk of speculative activities that had contributed to the financial crash. It prohibited commercial banks from engaging in investment banking activities and vice versa.
- **Federal Deposit Insurance Corporation (FDIC):** Also established in 1933, the FDIC was created to insure bank deposits, up to a certain amount, protecting depositors from losses due to bank failures. This move aimed to restore public trust in the banking system and prevent future bank runs.

3. Agricultural Policies

Agriculture was severely impacted by the Depression, with falling crop prices and widespread farmer distress. The New Deal included several measures to address these issues:

- **Agricultural Adjustment Act (AAA):** Enacted in 1933, the AAA aimed to raise crop prices by reducing production. The government paid farmers to leave a portion of their land fallow or to destroy crops and livestock. This policy sought to increase agricultural prices by decreasing supply, thereby helping farmers achieve better income levels.

UNITED KINGDOM

1. Abandonment of the Gold Standard

The UK was one of the first countries to abandon the gold standard during the Great Depression. The gold standard had fixed the value of the pound to a specific amount of gold, which constrained monetary policy and hindered economic recovery.

- **Abandonment of the Gold Standard (1931):** In September 1931, the UK government suspended the gold standard, which allowed the pound to devalue. This devaluation made British exports cheaper and more competitive internationally, helping to stimulate the economy by boosting trade. It also provided greater flexibility for the Bank of England to adjust monetary policy.

2. National Government's Economic Policies

The National Government, formed in 1931 under Prime Minister Ramsay MacDonald, implemented a series of economic policies aimed at addressing the Depression:

- **Austerity Measures:** The government introduced significant cuts in public spending and social services to reduce the budget deficit. This included reductions in unemployment benefits and wages for public sector workers. While these measures were intended to restore fiscal balance, they faced criticism for exacerbating economic hardships for many citizens.

3. Public Works Programs

In addition to austerity measures, the UK government invested in public works to create jobs and stimulate economic activity:

- **Public Works Projects:** The government funded various infrastructure projects, such as the construction of roads, schools, and public buildings. These projects aimed to reduce unemployment and provide a boost to the economy through increased demand for materials and labor.

GERMANY

1. Economic Reforms Under Nazi Regime

When Adolf Hitler and the Nazi Party came to power in 1933, they implemented a range of economic policies designed to address the Depression and consolidate their regime:

- **Public Works Projects:** The Nazis launched extensive public works programs, including the construction of the Autobahn, a network of highways. These projects created jobs and stimulated industrial production, contributing to economic recovery.
- **Autarky Policies:** The Nazi regime pursued policies aimed at achieving economic self-sufficiency, reducing dependence on foreign trade. This included efforts to increase domestic production of goods and resources, as well as implementing protectionist trade policies to shield German industry from international competition.
- **Rearmament:** A significant part of Nazi economic policy involved massive investment in military expansion. The rearmament program not only prepared Germany for war but also stimulated industrial growth and reduced unemployment. The increased production of military equipment and infrastructure had a significant impact on the economy.

FRANCE

France faced economic stagnation and high unemployment during the Great Depression. The French government implemented various policies to stabilize the economy:

- **Public Works Programs:** The French government invested in public works to address unemployment and stimulate economic activity. These projects included infrastructure improvements and construction initiatives aimed at creating jobs and boosting demand.

- **Currency Devaluation and Price Controls:** To address economic difficulties, France devalued its currency and implemented price controls to manage inflation and stabilize the economy. These measures aimed to improve competitiveness and reduce the impact of economic downturns on businesses and consumers.

CANADA

Canada faced significant economic challenges during the Great Depression, leading to the introduction of various relief programs:

- **Public Works Projects:** The Canadian government invested in large-scale public works projects, such as the construction of highways and railways. These initiatives were designed to create jobs and stimulate economic activity.
- **Unemployment Insurance:** Canada introduced unemployment insurance to provide financial support to those who lost their jobs. This program aimed to offer a safety net for workers and stabilize the economy by maintaining consumer spending.

AUSTRALIA

Australia's response to the Great Depression included a range of policies aimed at alleviating the economic crisis:

- **Relief Programs:** The Australian government implemented relief programs to support those affected by the Depression. These programs included direct financial assistance and public works projects designed to create employment opportunities.
- **Public Works Initiatives:** Similar to other countries, Australia invested in public works projects to stimulate economic activity and reduce unemployment. These projects included infrastructure development and other initiatives aimed at boosting the economy.

CONCLUSION:

The economic policy responses to the Great Depression reflect a period of significant experimentation and adaptation as governments sought to mitigate the severe impacts of the global economic downturn. The United States, through Franklin D. Roosevelt's New Deal, demonstrated a proactive approach with extensive reforms aimed at providing immediate relief, stimulating recovery, and preventing future crises. The establishment of social safety nets, banking regulations, and public works projects showcased a comprehensive strategy to address unemployment, stabilize the financial system, and support economic growth. In contrast, the United Kingdom's response, including the abandonment of the gold standard and austerity measures, aimed to stabilize the economy through currency devaluation and reduced public spending, while still investing in public infrastructure to alleviate unemployment. Germany's approach under the Nazi regime highlighted a focus on rearmament and large-scale public works to stimulate economic recovery and prepare for future conflicts. Countries such as France, Canada, and

Australia adapted their policies to their specific economic contexts, utilizing public works, currency adjustments, and social programs to address local challenges. These varied responses underline the necessity for tailored economic strategies in dealing with global economic crises. The Great Depression catalyzed significant changes in economic policy, laying the groundwork for modern economic frameworks and highlighting the crucial role of government intervention in managing economic stability. The lessons learned from this era continue to influence economic policymaking and crisis management strategies, demonstrating the enduring importance of responsive and adaptive economic policies in fostering resilience and recovery.

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