CAUSE OF THE GREAT DEPRESSION #4—DECLINING EXPORTS[@]

Reasons that European Imports of US Goods Declined in the late 1920s

REASON #1—INCREASING PRODUCTIVITY IN EUROPE

1) European industry and agriculture was becoming more productive (Brinkley 677).

REASON #2—TARIFFS

1) BEGINNINGS IN THE 1920S: During the 1920s, the government had advanced policies to favor business, one of which was high tariffs to protect domestic industry. This did help manufacturers, but it blunted international trade (Newman and Schmalbach 494).

2) EFFECTS OF TARIFFS: The refusal of the US to purchase products from Europe rendered Europe unable to purchase products from the US (http://www.gusmorino.com/pag3/greatdepression/).

3) EXAMPLE: In 1925, states in central and eastern Europe began to impose tariffs to close their markets to foreign goods (Spielvogel 784).

4) INCREASE UNDER HOOVER: Hoover signed into law the highest tariff rates in history with the 1930 Hawley-Smoot Tariff, which set tax increases ranging from 31 percent up to 49 percent on foreign imports. Although US business leaders supported it, hoping it would protect their markets from foreign competition, European countries retaliated by enacting higher tariffs of their own against US goods. The effect was reduced trade for all nations (Newman and Schmalbach 494).

REASON #3—FINANCIAL DIFFICULTIES IN EUROPE

Some countries in Europe, especially Germany under the Weimar Republic, were experiencing financial difficulties that prevented them from purchasing goods from overseas. The international debt structure, moreover, destabilized the European economy (Brinkley 677).

1) STEP 1—TREATY OF VERSAILLES: Article 231 of the Treaty of Versailles, also known as the War Guilt Clause, declared Germany and Austria responsible for starting the war and ordered Germany to pay reparations for all the damage to which the Allied governments and their people were subjected. The treaty established not the amount to be paid but left that to be determined later by a reparations commission (Spielvogel 776 – 777).

2) STEP 2—REPARATIONS: [1)] When WWI had ended, all the European nations that had been allied with the US now owed large sums of money to American banks, sums much too large to be repaid out of their shattered economies. [2)] That was one reason that the Allies had insisted, over the objections of Woodrow Wilson, that Germany and Austria pay reparations: the Allies thought that reparations payments would provide them with a way to pay off their own debts (Brinkley 677 – 678). [3)] In 1921, the Allied Reparations Commission settled on a sum of 132 billion marks ($33 billion) for German reparations, payable in annual installments of 2.5 billion (gold) marks (Spielvogel 782).

3) STEP 3—FINANCIAL DISASTER: [1)] Allied threats to occupy the Ruhr valley—Germany's chief industrial and mining center—led the new German republic to accept the reparations settlement and make its first payment in 1921. [2)] Germany experienced [a)] rising inflation [b)] domestic turmoil [c)] lack of revenue due to low taxes. [3)] By 1922, therefore, Germany announced that it was unable to pay any more (Spielvogel 782).

4) STEP 4—FRENCH OUTRAGE: An outraged French government sent troops to occupy the Ruhr valley; since the Germans would not pay the reparations, the French would collect reparations in kind by operating and using the Ruhr mines and factories (Spielvogel 782).

5) STEP 5—EVEN WORSE FINANCIAL DISASTER: [1)] The German government adopted a policy of passive resistance that was largely financed by printing more paper money—which only intensified the inflationary pressures that had already appeared. [2)] The German mark soon became worthless: [a)] In 1914, $1 = 4.2 marks. [b)] By 1 November 1923, $1 = 130 billion marks. [c)] By the end of November 1923, $1 = 4.2 trillion (Spielvogel 782 – 783).

6) STEP 6—THE US INTERVENES: The 1924 Dawes Plan [1)] reduced reparations [2)] stabilized German payments based on Germany's ability to pay [3)] granted an initial $200 million loan for German recovery, which opened the door to heavy US investments in Europe that helped create a new era of European prosperity between 1924 and 1929 (Spielvogel 783).

7) STEP 7—THE INTERNATIONAL DEBT STRUCTURE: Now the international payment system was a big cycle. [a)] The US gave loans to Germany. → [b)] Germany used those loans to rebuild and to repay the Allies. → [c)] Britain and France use that money from Germany to repay loans to the US

8) STEP 8—DESTABILIZING FACTORS: In the late 1920s, and particularly after the US economy began to weaken in 1929, Europe found it more difficult to borrow money from the US. At the same time, high American protective tariffs made it difficult for them to sell their goods in US markets (Brinkley 678).

9) STEP 9—THE COLLAPSE OF THE INTERNATIONAL CREDIT STRUCTURE: [1)] The decline in foreign exchange broke off the cycle. [2)] Without any source of foreign exchange wherewith to repay their loans, they began to default (Brinkley 678).

10) STEP 10—EFFECT ON EXPORTS: [1)] The US depended on European purchase of its goods in order to prosper. By 1929, 10 percent of the US GNP went into exports. [2)] But, Europe depended on US loans to buy these US exports. [3)] Thence, when the destabilized European economy was less able to purchase US goods, US exports fell 30 percent immediately. Between 1929 and 1933, then, the US lost $1.5 billion in foreign sales. This is equivalent to 1/8 of all of the US sales lost in the first years of the Great Depression (http://www.gusmorino.com/pag3/greatdepression/).

[@] This document contains the information I used to support my assigned position in a 27 February 2004 class debate on the causes of the Great Depression. Out of five possible positions, I was given the fourth: declining exports from the US.