

# The Great Depression

Starting in 1929, Canada and most of the world entered into a period of drastic economic decline. This was not a recession which would last a few months, but a major depression which would last 10 years, only ending with the start of World War II. Although the depression started in the United States, it quickly spread to Canada where the country lost about 40% of its Gross National Product and about 30% of our workforce would become Unemployed.

## Underlying Causes of the Great Depression?

### 1. Reliance on Staple Products

- Canada's economy relied heavily on sales of natural resources and primary industries.
- The 1920's saw booming growth in wheat production with the post war demands. Using new technology many people moved to the prairies and cleared land to grow wheat and get in on the demand.
- By 1929, foreign crop production had recovered from the war and Canadian farmers could not sell all their crops on the world market. There was too much wheat available which made prices drop drastically.



## 2. An Economy which Relied on Exports

- Canada has become a supplier of products to the world because the production in the European countries had been all but destroyed during the war.
- By 1929, about 80% of Canada's staple products were being sold as exports
- By 1929, at least 33% of all of Canada's GNP (gross national product) was coming from sales to other countries.
- When the US and Britain economies went into depression there was no longer a market for our goods. This meant many Canadian companies failed as they couldn't sell their products. Companies closed and people were laid off.



### **3. Weakness of the European Economies after War**

- European nations really struggled to recover after the war. With so much of their infrastructure destroyed and after having spent so much to finance the war effort, there was very little money left for luxury items.
- When the stock market crashed in 1929 the fragile economies of Europe began to collapse. They couldn't afford to keep trading for Canadian goods.

### **4. Overdependence on the United States**

- Since the Halibut treaty of the early 20's Canada had been building a closer relationship with the United States. They were becoming our biggest trading partner and also the source of the bulk of new investment money, fueling the growth of Canadian industry. Nearly 40% of all exported goods from Canada were heading to the United States.
- Such a heavy reliance on US trade and investment meant that whatever happened in the US would directly affect our economy.
- With the market crash in the US there was no more investment money to support these Canadian companies.

## **5. Overproduction of Goods**

- Canada had become a major producer of goods in the years during and after the war. However, our population was still very small.
- Even with the new disposable income that many Canadians had available during the 1920's it didn't take long before our own markets became saturated with the goods we made.
- We needed foreign markets to sell our goods to: mainly the US and Britain.

## What Caused the Great Depression?

- In the 1920's people were making more money than ever. Many Canadians now had disposable income: money that was left over after they had paid for their basic needs.
- Canadians saw the rich upper class making a lot of money on the stock market, by investing in stocks and making profits as those businesses grew. They wanted to increase their wealth and so more people got involved in investing.
- A common practice of the time was to buy stock “**on margin**”. This was a form of credit where you would buy the stock with about a half of the cost in money and pay for the rest out of the profits that the stocks made. This was really gambling with imaginary money.
- In the fall of 1929 stock prices began to fall. Many investors got worried and tried to sell off their stocks, causing a panic that made prices drop.
- This led to a crash in prices that ended with the close of the stock market on **Black Tuesday: October 29, 1929**.
- With the market in trouble, investor were asked to pay up the value of the cost of their shares. Most people didn't have the money to pay what was owed and were ruined financially.
- Most investors lost nearly everything they owned as stocks that were worth thousands of dollars quickly became worth next to nothing. Savings were wiped out.
- Although not many were involved in stocks in Canada, when the companies got in trouble and closed, Canadian workers were made unemployed. In this way the depression effected everyone.