INTERNATIONAL BUSINESS

Unit #1: The Great Depression

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KEY LEARNING GOAL:

A note from Mr. Parsons...
Globalization plays a major role in the success of international business. As a result, if we are going to compete in international markets, we must be able to evaluate the economic situations of the world. To demonstrate how the economy can impact international success we will evaluate mistakes from the past, beginning with the causes of the Great Depression.

Evaluating the Great Depression will help you to learn important economic terms and teach you to identify economic indicators.

CURRICULUM EXPECTATIONS:

- ☑ Assess, considering factors such as markets, financing, and labour, how trends in the global marketplace have changed the ways in which an individual might run a business;
- ☑ Analyse how, in an era of globalization, consumer choices and attitudes affect Canadian business decisions.
- ☑ Describe how the state of Canada's economy (e.g., inflation rate, unemployment rate, productivity levels) affects international businesses operating in Canada.
- ☑ Demonstrate an understanding of terminology, concepts,and basic business communication practices related to international business.

Step #1: Video and Article Review

Begin by watching the video on the great depression and then read the article that begins on page 2. Following the video and article you are asked to complete the journal questions listed in Step #2 below.

Step #2: Journal Response

Question #1: What were the causes of The Great Depression?

Question #2: What types of businesses do you believe would be less likely to fail during times of recession or depression?

Questions #3: What measures were made to improve the economic situation during the great depression?

Question #4: What was the Smoot-Hawley Tariff? What was it designed to do? Was it a positive or negative for the global economy? How did it impact Canada?

Question #5: What was the impact on foreign trade during the depression?

Question #6: Canada had some advantages compared to other countries during the great depression. What were these advantages?

Questions #7: What are your own career goals? Is this a stable career path? How will you ensure that you are prepared for the future?

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The Great Depression was a severe worldwide economic depression in the decade preceding World War II. The timing of the Great Depression varied across nations, but in most countries it started in about 1929 and lasted until the late 1930s or early 1940s. It was the longest, most widespread, and deepest depression of the 20th century.

In the 21st century, the Great Depression is commonly used as an example of how far the world's economy can decline. The depression originated in the U.S., starting with the fall in stock prices that began around September 4, 1929 and became worldwide news with the stock market crash of October 29, 1929 (known as Black Tuesday). From there, it quickly spread to almost every country in the world.

The Great Depression had devastating effects in countries rich and poor. Personal income, tax revenue, profits and prices dropped, while international trade plunged by more than 50%. Unemployment in the U.S. rose to 25%, and in some countries rose as high as 33%.

Cities all around the world were hit hard, especially those dependent on heavy industry. Construction was virtually halted in many countries. Farming and rural areas suffered as crop prices fell by approximately 60%. Facing plummeting demand with few alternate sources of jobs, areas dependent on primary sector industries such as cash cropping, mining and logging suffered the most.

Some economies started to recover by the mid-1930s. In many countries, the negative effects of the Great Depression lasted until the start of World War II.

Economic historians usually attribute the start of the Great Depression to the sudden devastating collapse of US stock market prices on October 29, 1929, known as Black Tuesday; some dispute this conclusion, and see the stock crash as a symptom, rather than a cause, of the Great Depression.

The decline in the US Economy was the factor that pulled down most other countries at first, then internal weaknesses or strengths in each country made conditions worse or better. Frantic attempts to shore up the economies of individual nations through protectionist policies, such as the 1930 U.S. Smoot-Hawley Tariff Act and retaliatory tariffs in other countries, exacerbated the collapse in global trade. By late 1930, a steady decline in the world economy had set in, which did not reach bottom until 1933.

Economic indicators: Change in economic indicators 1929–32

	United States	Great Britain	France	Germany
Industrial production	–46%	–23%	–24%	–41%
Wholesale prices	–32%	–33%	–34%	–29%
Foreign trade	–70%	–60%	–54%	–61%
Unemployment	+607%	+129%	+214%	+232%

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The consensus among demand-driven theories is that a large-scale loss of confidence led to a sudden reduction in consumption and investment spending. Once panic and deflation set in, many people believed they could avoid further losses by keeping clear of the markets. Holding money became profitable as prices dropped lower and a given amount of money bought ever more goods, exacerbating the drop in demand.

Keynes' basic idea was simple: to keep people fully employed, governments have to run deficits when the economy is slowing, as the private sector would not invest enough to keep production at the normal level and bring the economy out of recession. Keynesian economists called on governments during times of economic crisis to pick up the slack by increasing government spending and/or cutting taxes.

As the Depression wore on, Franklin D. Roosevelt tried public works, farm subsidies, and other devices to restart the US economy, but never completely gave up trying to balance the budget. According to the Keynesians, this improved the economy, but Roosevelt never spent enough to bring the economy out of recession until the start of World War II.

Breakdown of International Trade:
Many economists have argued that the sharp decline in international trade after 1930 helped to worsen the depression, especially for countries significantly dependent on foreign trade. Most historians and economists partly blame the American Smoot-Hawley Tariff Act (enacted June 17, 1930) for worsening the depression by seriously reducing international trade and causing retaliatory tariffs in other countries.

The Tariff Act of 1930, otherwise known as the Smoot-Hawley Tariff was an act, sponsored by Senator Reed Smoot and Representative Willis C. Hawley, and signed into law on June 17, 1930, that raised U.S. tariffs on over 20,000 imported goods to record levels.

Causes of the Great Depression:

There were multiple causes for the first downturn in 1929. These include the structural weaknesses and specific events that turned it into a major depression and the manner in which the downturn spread from country to country. In relation to the 1929 downturn, historians emphasize structural factors like major bank failures and the stock market crash. In contrast, economists point to monetary factors such as actions by the US Federal Reserve that contracted the money supply, as well as Britain's decision to return to the Gold Standard at pre–World War I parities (US$4.86:£1).

Recessions and business cycles are thought to be a normal part of living in a world of inexact balances between supply and demand. What turns a normal recession or 'ordinary' business cycle into a depression is a subject of much debate and concern. Scholars have not agreed on the exact causes and their relative importance. The search for causes is closely connected to the issue of avoiding future depressions.

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The overall level tariffs under the Tariff were the second-highest in U.S. history, exceeded by a small margin only by the Tariff of 1828. The act, and the ensuing retaliatory tariffs by U.S. trading partners, reduced American exports and imports by more than half.

While foreign trade was a small part of overall economic activity in the U.S. and was concentrated in a few businesses like farming, it was a much larger factor in many other countries.

In dollar terms, American exports declined from about $5.2 billion in 1929 to $1.7 billion in 1933; but prices also fell, so the physical volume of exports only fell by half. Hardest hit were farm commodities such as wheat, cotton, tobacco, and lumber. According to this theory, the collapse of farm exports caused many American farmers to default on their loans, leading to the bank runs on small rural banks that characterized the early years of the Great Depression.

During the Crash of 1929 preceding the Great Depression, margin requirements were only 10%.[18] Brokerage firms, in other words, would lend $9 for every $1 an investor had deposited. When the market fell, brokers called in these loans, which could not be paid back. Banks began to fail as debtors defaulted on debt and depositors attempted to withdraw their deposits en masse, triggering multiple bank runs. Government guarantees and Federal Reserve banking regulations to prevent such panics were ineffective or not used. Bank failures led to the loss of billions of dollars in assets.

Outstanding debts became heavier, because prices and incomes fell by 20–50% but the debts remained at the same dollar amount. After the panic of 1929, and during the first 10 months of 1930, 744 US banks failed. (In all, 9,000 banks failed during the 1930s). By April 1933, around $7 billion in deposits had been frozen in failed banks or those left unlicensed after the March Bank Holiday.

Canada:
Harshly affected by both the global economic downturn, Canadian industrial production had fallen to only 58% of the 1929 level by 1932, the second lowest level in the world after the United States, and well behind nations such as Britain, which saw it fall only to 83% of the 1929 level. Total national income fell to 56% of the 1929 level, again worse than any nation apart from the United States. Unemployment reached 27% at the depth of the Depression in 1933. During the 1930s, Canada employed a highly restrictive immigration policy.

In an angry response to Smoot–Hawley, Canada welcomed the British introduction of trade protectionism and a system of Commonwealth preference during the winter of 1931-32. It helped Canada avoid external default on their public debt during the Great Depression. Canada had a high degree of exposure to the international economy - for example, in the 1920s about 25% of the Canadian GDP came from exports - which left Canada susceptible to any international economic downturn. The onset of the depression created critical balance of payment deficits, and it was largely the extension of imperial protection by Britain that gave Canada the opportunity to increase their exports to the British market. By 1938 Britain was importing more than twice the 1929 volume of products from Australia, while the value of products shipped from Canada more than doubled, despite the dramatic drop in prices. Thus, the British market played a vital role in helping Canada and Australia stabilize their balance of payments in the immensely difficult economic conditions of the 1930s

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Economic results:
By 1933, 30% of the labour force was out of work, and one fifth of the population became dependent on government assistance. Wages fell, as did prices. Gross National Expenditure had declined 42% from the 1929 levels. In some areas, the decline was far worse. In the rural areas of the prairies, two thirds of the population were on relief.

Further damage was the reduction of investment: both large companies and individuals were unwilling and unable to invest in new ventures.
In 1932, industrial production was only at 58% of the 1929 level, the second lowest level in the world after the United States, and well behind nations such as Britain, which only saw it fall to 83% of the 1929 level. Total national income fell to 55% of the 1929 level, again worse than any nation other than the U.S.[2]

Impact:
Canada's economy at the time was just starting to shift from primary industry (farming, fishing, mining and logging) to manufacturing. Exports of raw materials plunged, and employment, prices and profits fell in every sector. Canada was the worst-hit because of its economic position. It was further affected as its main trading partners were Britain and the U.S., both of which were badly affected by the worldwide depression.

Unemployment:
Urban unemployment nationwide was 19%; Toronto's rate was 17%, according to the census of 1931. Farmers who stayed on their farms were not considered unemployed.[4] By 1933, 30% of the labour force was out of work, and one fifth of the population became dependent on government assistance. Wages fell as did prices. In some areas, such as mining and lumbering areas, the decline was far worse.

The Stock Market crash in New York led people to hoard their money; as consumption fell, the American economy steadily contracted, 1929-32. Given the close economic links between the two countries, the collapse quickly affected Canada. Added to the woes of the prairies were those of Ontario and Quebec, whose manufacturing industries were now victims of overproduction. Massive lay-offs occurred and other companies collapsed into bankruptcy. This collapse was not as sharp as that in the United States, but was the second sharpest collapse in the world.

Canada did have some advantages over other countries, especially its extremely stable banking system that had no failures during the entire depression, compared to over 9,000 small banks that collapsed in the United States.

Canada was hurt badly because of its reliance on wheat and other commodities, whose prices fell by over 50%, and because of the importance of international trade. In the 1920s about 25% of the Canadian Gross National Product was derived from exports. The first reaction of the U.S. was to raise tariffs via the Smoot-Hawley Tariff Act, passed into law June 17, 1930. This hurt the Canadian economy more than most other countries in the world, and Canada retaliated by raising its own rates on American imports and by switching business to the Empire.

Source:
http://en.wikipedia.org/wiki/Great_Depression