What were the causes of the Great Depression in Canada?

KEY TERMS

recession less severe than a depression, a recession is a downturn in economic activity in which the value of goods and services declines

depression a long period of severe economic and social hardship, massive unemployment, and suffering

market economy an economic system in which individuals produce goods and prices are determined by supply and demand

mixed economy an economic system in which both individuals and the government produce and sell goods

supply and demand the quantity of a product that is available and the market's desire for that product; the price of the product varies based on supply and demand

prosperity in the economic cycle, the period of economic growth and expansion

recovery in the economic cycle, the period following a recession during which the value of goods and services rises

overproduction more goods being produced than being sold; leads to a decrease in production, which leads to increased unemployment

tariffs taxes on imported goods

protectionism a system of using tariffs to raise the price of imported goods in order to protect domestic producers

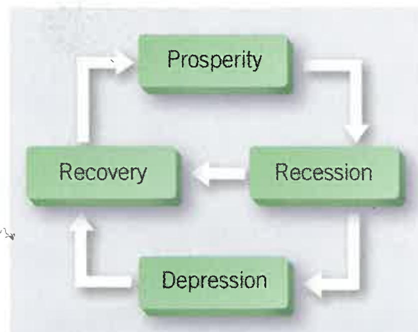

FIGURE 4–2 In the economic cycle, market economies have ups and downs.

Thinking Critically How would governments try to alter this cycle? Provide specific examples.

Causes of the Great Depression

The end of the prosperity of the 1920s came as a surprise to many Canadians. The stock market crash on October 29, 1929 marked the beginning of a **recession**, which progressed to a decade-long **depression** in Canada and around the world. Prior to examining the causes of the Great Depression and what was happening in the economy at the time, a basic knowledge of economic principles is necessary.

FIGURE 4–1 People flood the streets of New York after the stock market crash.

Basic Economic Principles

In a **market economy**, or free enterprise system, the means of production—factories, machinery, and land—are owned by individuals, not the government. Individuals decide what types of goods and services they produce and the prices for their products. People are free to buy what they like from whomever they choose. Canada has a **mixed economy**, meaning that the government has some involvement in the economy, including the creation of government-owned industries (for example, Canadian National Railways), limitations on workers' rights to strike, and subsidies to support certain industries.

In a market or mixed economy, production and prices are determined by **supply and demand**. Supply refers to how much of a product is available. Demand refers to how much people want that product. Usually, when the supply of a product is low, demand makes the price higher; when there is a great supply, the price is lower. For example, at the beginning of the 1920s, a shortage of wheat as a result of the First World War led to a higher price for Canadian wheat. As other countries began producing wheat after the war, increased supply lowered wheat prices.

Market economies regularly go through cycles of growth and decline (see Figure 4–2). Expansion in many economic activities results in a period of **prosperity**. This eventually is followed by a slowdown in the economy, called a recession. If the slowdown is longer and more severe, it is called a depression. **Recovery** is when the economy begins to grow again.

Overproduction

During the 1920s, many industries in Canada expanded as demand for their goods was high. But when the economy slowed down, many companies faced **overproduction** as they produced more goods than they sold. At first, manufacturers lowered prices and stockpiled goods. Eventually, they cut back and produced fewer goods. This decrease in production led to layoffs in factories, which meant people could not afford to buy consumer goods, so sales slowed down even more.

Economic Dependence on Exports

The Great Depression exposed a major weakness in the Canadian economy: its heavy dependence on the export of primary resources. Two exports in particular—wheat from the Prairie provinces, and newsprint from British Columbia, Ontario, and Québec—made Canada extremely vulnerable to changes in world markets. Eighty percent of Canada's production on farms, and in forests and mines was exported.

In the early 1920s, wheat farmers in Canada and the United States produced record quantities of crops and sold them at record prices. But as more countries, including Argentina and Australia, produced wheat crops, there was more competition on the international market. Wheat was being overproduced and the price of wheat began to fall. As international sales decreased, farmers' incomes dropped. Soon, many were unable to meet their mortgage and loan payments.

Tariffs and U.S. Protectionism

Canada's economy was hit particularly hard because of its close ties to the U.S. economy. The United States had become Canada's biggest trading partner and largest investor. Consequently, when the U.S. economy "crashed," Canada's economy was bound to feel the effects.

Since the United States did not need raw materials from other countries, it imposed high **tariffs** on foreign goods. These tariffs were meant to protect the U.S. domestic market by making foreign items, such as Canadian wheat, more expensive. However, this **protectionism** led other countries to impose their own tariffs in response to the United States' actions. Tariffs caused a slowdown in world trade as opportunities for export shrank. Canadian exports decreased substantially as the U.S. and other countries stopped buying Canadian products.

FIGURE 4–3 Increased U.S. protectionism as a response to the recession of 2008–2009

Interpreting a Cartoon How does the cartoonist portray Canada's response to U.S. protectionism?

KEY TERMS

reparations compensation from a defeated enemy for damages caused by war

speculation buying shares "on margin" with the expectation that the value of the shares will increase enough to pay back the loan and make a profit

Black Tuesday October 29, 1929, when the New York Stock Exchange collapsed

Debt from the First World War

The United States lent several countries money during and after the First World War. Many of these countries relied on trade with the U.S. to raise money to pay these debts. But as protectionism grew, international trade decreased and several countries were unable to pay back the loans. Britain and France in particular relied on German **reparations** to pay their war debts. After the First World War, Germany's economy was in ruins. The enormous reparations it was obligated to pay Britain and France under the Treaty of Versailles further stunted its ability to recover (see Chapter 5). Because Germany could not make its reparation payments, Britain and France in turn could not pay their war debts.

Speculation and the Stock Market Crash

Business was booming in the early 1920s. Companies wanted to expand, and in order to raise money, they would issue shares (or stocks). Investors bought these shares believing that the company would do well and the value of the stocks would rise. Between 1922 and 1926, Canadian companies issued $700 million worth of new shares.

During the 1920s, many investors were buying "on margin." This meant buying shares with only a 10 percent down payment, assuming that when the prices of the stocks increased the remaining 90 percent would be paid. This process is called **speculation**. Loans for stocks were easy to obtain, and high demand had driven the price of stocks up beyond their real value.

When some investors started selling their stocks in order to cash in on high profits, others rushed to follow their lead. As a result, stock prices fell. People panicked and began to sell off huge volumes of stocks, making prices drop even further. On **Black Tuesday**, October 29, 1929, the New York Stock Exchange collapsed, followed by the Toronto and Montréal Stock Exchanges.

	1928–1929 Average $ per Capita	1933 $ per Capita	Percentage Decrease
Canada	471	247	48
Saskatchewan	478	135	72
Alberta	548	212	61
Manitoba	466	240	49
British Columbia	594	314	47
Prince Edward Island	278	154	45
Ontario	549	310	44
Québec	391	220	44
New Brunswick	292	180	39
Nova Scotia	322	207	36

FIGURE 4–4 Average per person income, 1928/1929 and 1933. Note that these numbers represent the average Canadian; many Canadians fell well below this average and many had no money at all.

Using Evidence Which province do you think was hardest hit by the Depression? Explain.

Falling Off the Economic Edge

The effects of the stock market crash were devastating. Investors who had borrowed heavily to buy shares went bankrupt in a single day. While few Canadians actually invested in stocks, the crash affected millions of people. Many companies cut back on production or closed their doors when the prices of their goods dropped. More and more people lost their jobs and could not find work. Without jobs, they could no longer afford to buy such items as cars, radios, or telephones. Without customers, the people who worked in the factories producing these goods also lost their jobs. Within a year, millions of Canadians were out of work.