

Economy in the Interwar Period

We had to struggle with the old enemies of peace—business and financial monopoly, speculation, reckless banking, class antagonism, sectionalism, war profiteering.

—U.S. President Franklin Delano Roosevelt (1936)

Essential Question: How did different governments respond to economic crises after 1900?

Not long after the global trauma of World War I, a global economic crisis resulted in the Great Depression of the 1930s and eventually led to World War II. It undermined faith in the market-based economics that had delivered such wealth as imperialism spread. As unemployment, hunger, and homelessness increased, people turned to their governments for help. Governments had long been essential to capitalism—building roads, providing schools, and regulating trade—but across the world in the 1930s, government intervention in the economy increased. The United States became more liberal as President Roosevelt identified inequities and activities that undermined the economy and could lead to war. Countries such as Germany, Italy, and Japan, however, turned radically to the right. In Russia, government economic control was instituted through the implementation of often repressive Five-Year Plans based on production quotas.

The Great Depression

From today's perspective, the effects of World War I can look small compared to the even greater destruction caused by World War II. However, the effects were massive. Many Western Europeans felt bewildered. World War I brought anxiety to the people who suffered through it. The Allied nations, though victorious, had lost millions of citizens, both soldiers and civilians, and had spent tremendous amounts of money on the international conflict. The defeated Central Powers, particularly Germany and the countries that emerged from the breakup of Austria-Hungary, suffered even greater losses.

The Treaty of Versailles forced Germany to pay billions of dollars in reparations to the war's victors. War-ravaged Germany could not make these payments, so its government printed more paper money in the 1920s. This



Photo by Albert Harlingue/Roger Viollet/Getty Images

Severe inflation caused extreme hardship for Germans during the Weimar Republic. Notice the high prices on these common food items: 40,000 marks for a tomato or four eggs, 50,000 marks for a loaf of bread, etc. The total cost of the food on the table in this photo was 1 million marks!

action caused **inflation**, a general rise in prices. Inflation meant that the value of German money decreased drastically. To add to the sluggish postwar economy, France and Britain had difficulty repaying wartime loans from the United States, partly because Germany was having trouble paying reparations to them. In addition, the Soviet government refused to pay Russia's prerevolutionary debts.

Global Downturn Although the 1920s brought modest economic gains for most of Europe, the subsequent **Great Depression** ended the tentative stability. Agricultural overproduction and the United States' stock market crash in 1929 were two major causes of the global economic downturn. American investors who had been putting money into German banks removed it when the American stock market crashed. In addition to its skyrocketing inflation, Germany then had to grapple with bank failures. Germany thus suffered more than any other Western nation during the Great Depression. The economies of Africa, Asia, and Latin America suffered because they depended on the imperial nations that were experiencing this enormous economic downturn. Japan also suffered during the Depression because its economy depended on foreign trade. With the economic decline in the rest of the world, Japan's exports were cut in half between 1929 and 1931.



The Global Economy, 1929 to 1938		
Year	Total Global Production	Total Global Trade
1929	100	100
1930	86	89
1931	77	81
1932	70	74
1933	79	76
1934	95	79
1935	98	82
1936	110	86
1937	120	98
1938	111	89

Source: Adapted from data in Barry Eichengreen and Douglas Irwin, “The Protectionist Temptation: Lessons from the Great Depression for Today,” March 17, 2009.

In this chart, the levels of production and trade for 1929 are represented by 100. The other numbers reflect changes from the 1929 level.

Keynesian Economics The Great Depression inspired new insights into economics. British economist **John Maynard Keynes** rejected the laissez-faire ideal. He concluded that intentional government action could improve the economy. During a depression, he said, governments should use **deficit spending** (spending more than the government takes in) to stimulate economic activity. By cutting taxes and increasing spending, governments would spur economic growth. People would return to work, and the depression would end.

New Deal The administration of President **Franklin Delano Roosevelt** used Keynes’s ideas to address the Great Depression in the United States. Roosevelt and his backers created a group of policies and programs known collectively as the **New Deal**. Its goal was to bring the country relief, recovery, and reform: **relief** for citizens who were suffering, including the poor, the unemployed, farmers, minorities, and women; **recovery** to bring the nation out of the Depression, in part through government spending; and **reform** to change government policies in the hopes of avoiding such disasters in the future.

By 1937, unemployment was declining and production was rising. Keynesian economics seemed to be working. However, Roosevelt feared that government deficits were growing too large, so he reversed course. Unemployment began to grow again. The Great Depression finally ended after the United States entered World War II in 1941 and ran up deficits for military spending that dwarfed those of the New Deal programs.

Impact on Trade The Great Depression was a global event. Though it started in the industrialized countries of the United States and Europe, it spread to Latin America, Africa, and Asia. By 1932, more than 30 million people worldwide were out of work. People everywhere turned to their governments

for help. As unemployment increased, international trade declined, a decline made worse as nations then imposed strict tariffs, or taxes on imports, in an effort to protect the domestic jobs they still had.

In contrast to most countries, Japan dug itself out of the Depression relatively rapidly. Japan devalued its currency; that is, the government lowered the value of its money in relation to foreign currencies. Thus, Japanese-made products became less expensive than imports. Japan's overseas expansionism also increased Japan's need for military goods and stimulated the economy.

Political Revolutions in Russia and Mexico

In the century's first two decades, rebellions erupted against long-standing authoritarian governments in Mexico, China, and Russia. (See Topic 7.1.) Revolutionaries unseated the ruling governments in each country, instituting their own political philosophies and practices. The revolutions influenced subsequent events in the Soviet Union, Mexico, and China in the interwar years. Each country took a different approach to managing their national economy.

Continuing Revolution in Russia Although Lenin and the Bolshevik Party had promised “peace, land, and bread” during World War I, they instead presided over a populace that faced starvation during the widespread **Russian Civil War** (1918–1921). Hundreds of thousands of Russians, Ukrainians, and others revolted against the Russian government's actions. Urban factory workers and sailors went on strike, and peasants began to hoard their food stocks. Industrial and agricultural production dropped sharply.

By 1921, Lenin realized that the Russian economy was near complete collapse. In an attempt to remedy this, he instituted a temporary retreat from communist economic policies. Under his **New Economic Plan (NEP)**, he reintroduced private trade, allowing farmers to sell their products on a small scale. Although the government permitted some economic liberties, it maintained strict political control. The NEP enjoyed modest successes, but it came to an end when Lenin died in 1924.

Joseph Stalin Several years after Lenin's death, Joseph Stalin took control of the **Politburo**, the Communist Party's central organization, setting himself up as a dictator. He remained in power for almost 30 years. Once in power, Stalin abandoned Lenin's NEP and instituted the first **Five-Year Plan**, which was meant to transform the **Union of Soviet Socialist Republics** (also called the **USSR** or the **Soviet Union**) into an industrial power. He wanted his largely agricultural nation to “catch up” to the industrial nations of the West. At the same time, Stalin **collectivized** agriculture, a process in which farmland was taken from private owners and given to collectives to manage. In theory, a collective, or **kolkhoz**, was a group of peasants who freely joined together to farm a certain portion of land. In practice, however, peasants were forced by the state to work on a specific collective and were expected to follow detailed plans and to reach specific goals set by the government.

This elimination of private land ownership and the forced redistribution of land, livestock, and tools enraged farmers. Each year, the government seized food to send to the cities. The farmers retaliated against collectivization by burning crops and killing livestock. Many moved to the cities for a better life.

A series of five-year plans had mixed results. The collectivization of agriculture was a huge failure. Millions of peasants starved to death, especially in the Ukraine. However, heavy industry grew tremendously in the 1930s. Although consumer goods were in short supply, there were plenty of factory jobs available, and the cost of living was low.

Stalin's brutal regime is widely condemned today. He punished his political opponents by executing them or sentencing them to life terms in **gulags**, or labor camps, where many died. In addition, his agricultural policies led to the deaths of many millions of Soviet citizens. Because Stalin kept tight control of the press, details of his atrocities went largely unreported. Nonetheless, in the 1930s, an economically depressed world viewed the U.S.S.R. with a mix of horror and wonder. The USSR was rapidly industrializing and increasing its military power. It presented a challenge to countries with capitalist economies whose people were experiencing high levels of unemployment. (Connect: Write a paragraph connecting the USSR with the ideology of Marxism. See Topic 5.8.)

Party Rule in Mexico The economy took a different direction in Mexico. The Mexican revolution saw the emergence of one strong political party, the **Institutional Revolutionary Party**, or **PRI**. This party dominated Mexican politics for most of the 20th century. The Mexican political system has often been called corporatist since the ruling PRI party claimed favors, such as access to primary education and jobs created through improvements to infrastructure, for its constituents.

During PRI's rule, there was a vast improvement in the economy, especially in the period from 1930 to the 1970s. In the 1930s, efforts at land reform were successful under **Lázaro Cárdenas**. In 1938, for example, his regime nationalized the country's mostly foreign-owned oil industry, angering foreign investors. This company, **Petróleos Mexicanos** or **PEMEX**, became the second largest state-owned company in the world. Despite these reforms, however, the interwar period did not see dramatic changes in Mexico's social hierarchy.

Rise of Right-Wing Governments

In some countries, the turn to the right was radical. A new political system known as **fascism** arose that appealed to extreme nationalism, glorified the military and armed struggle, and blamed problems on ethnic minorities. Fascist regimes suppressed other political parties, protests, and independent trade unions. They justified violence to achieve their goals and were strongly anticommunist. Germany turned to fascism (see Topic 7.6), and some other countries did as well.

Rise of Fascism in Italy Benito Mussolini coined the term *fascism*, which comes from the term *fascis*, a bundle of sticks tied around an axe, which was an ancient Roman symbol for authority. This symbol helped characterize Italy's Fascist government, which glorified militarism and brute force.

The Italian fascist state was based on a concept known as **corporatism**, a theory based on the notion that the sectors of the economy—the employers, the trade unions, and state officials—are seen as separate organs of the same body. Each sector, or organ, was supposedly free to organize itself as it wished as long as it supported the whole. In practice, the fascist state imposed its will upon all sectors of society, creating a **totalitarian state**—a state in which the government controls all aspects of society.

Mussolini Takes Control Even though Italy had been considered one of the victors at the 1919 Paris Peace Conference—along with Britain, France, and the United States—Italy received very little territory from the Treaty of Versailles. This failure to gain from the war caused discontent in Italy. Amid the general bitterness of the 1920s, Mussolini and his allies in the Fascist Party managed to take control of the parliament. Mussolini became a dictator, repressing any possible opposition to his rule. Militaristic propaganda infiltrated every part of the Fascist government. For example, schoolchildren were taught constantly about the glory of their nation and their fearless leader, “*Il Duce*.”

Part of Mussolini's fascist philosophy was the need to conquer what he considered an inferior nation. During the imperialist “Scramble for Africa” in the 19th century, Italy seized **Libya** and colonized **Italian Somaliland**, now part of Somalia. However, the Italian army was pushed back by Abyssinia, modern-day Ethiopia, in the 1890s. In 1934, Mussolini called for the complete conquest of Abyssinia. In 1935, 100,000 Italian troops crossed the border from Somaliland to Abyssinia, defying sanctions from the League of Nations. This time, the Italian army overpowered Abyssinia's while the global community did little to stop the conquest. Many historians believe the Abyssinian crisis destroyed the League of Nations' credibility. In 1936, Mussolini and Germany's Adolf Hitler formed an alliance they hoped would dominate Europe.

Fascism and Civil War in Spain After the economic decline in the early 1930s, two opposing ideologies, or systems of ideas, battled for control of Spain. The **Spanish Civil War** that resulted soon took on global significance as a struggle between the forces of democracy and the forces of fascism.

The **Spanish Republic** formed in 1931 after King Alfonso VIII abdicated. In 1936, the Spanish people elected the **Popular Front**, a coalition of left-wing parties, to lead the government. A key aspect of the Front's platform was land reform, a prospect that energized the nation's peasants and radicals. Conservative forces in Spain, such as the Catholic Church and high-ranking members of the military, were violently opposed to the changes that the Popular Front promised. In July of the same year, Spanish troops stationed in Morocco conducted a military uprising against the Popular Front. This action marked the beginning of the Spanish Civil War, which soon spread to Spain itself. General



Francisco Franco led the insurgents, who called themselves **Nationalists**. On the other side were the **Republicans** or **Loyalists**, the defenders of the newly elected Spanish Republic.

Foreign Involvement Although the nations of Europe had signed a nonintervention agreement, Hitler of Germany, Mussolini of Italy, and Antonio Salazar of Portugal contributed armaments to the Nationalists. Civilian volunteers from the Soviet Union, Britain, the United States, and France contributed their efforts to the Loyalists. Many historians believe that without the help of Germany, Italy, and Portugal, the Nationalist side probably would not have prevailed against the Republic of Spain.

Guernica The foreign involvement in Spain's struggle also escalated the violence of the war. One massacre in particular garnered international attention. The German and Italian bombing of the town of **Guernica** in northern Spain's **Basque region** was one of the first times in history an aerial bombing targeted civilians. Many historians believe that the bombing of Guernica was a military exercise for Germany's air force, the **Luftwaffe**.

The tragedy of Guernica was immortalized in Pablo Picasso's painting of that name, commissioned by the Republic of Spain and completed in 1938. Although abstract, the painting brilliantly depicts the horrific violence of modern warfare and is one of the most significant works of 20th-century art.



Source: Museo Reina Sofia
Pablo Picasso, *Guernica* (1937)

Franco's Victory The Spanish Civil War (1936–1939) ended when Franco's forces defeated the Loyalist army. He ruled Spain as a dictator until his death in 1975. Spain did not officially enter World War II (1939–1945), but the government offered some help to Germany, Italy, and Japan.

Rise of a Repressive Regime in Brazil As in Europe, parts of Latin America also became more conservative. During the interwar years, Brazil was considered Latin America's "sleeping giant" because of its slow shift



from an agricultural to an industrial economy. Large landowners dominated the nation's economy, which frustrated members of the urban middle class. Compounding their frustration was the workers' suffering caused by the Great Depression. Discontent led to a bloodless 1930 coup, or illegal seizure of power, which installed Getulio Vargas as president.

Vargas's pro-industrial policies won him support from Brazil's urban middle class. They believed he would promote democracy. However, his actions paralleled those of Italy's corporate state under Mussolini. While Brazil's industrial sector grew rapidly, Vargas began to strip away individual political freedoms. His *Estado Novo* ("New State") program instituted government censorship of the press, abolition of political parties, imprisonment of political opponents, and **hypernationalism**, a belief in the superiority of one's nation over all others and the single-minded promotion of national interests. While these policies were similar to those of European fascists, the Brazilian government did not praise or rely on violence to achieve and maintain control.

Moreover, even though Brazil had close economic ties with the United States and Germany in the late 1930s, Brazil finally sided with the Allies in World War II. This political alignment against the Axis powers made Brazil look less like a dictatorship and more liberal than it actually was. World War II prompted the people of Brazil to push for a more democratic nation later. They came to see the contradiction between fighting fascism and repression abroad and maintaining a dictatorship at home.

Three Approaches to Modern Industrial Society			
Policy Area	Communism	Capitalism	Fascism
Economics	Believed that businesses should be owned or managed by the government	Believed that businesses should be owned privately and compete with each other	Believed that businesses should be owned privately and government should restrict competition
Internationalism and Nationalism	Supported internationalism by opposing colonialism and calling for global worker solidarity	Supported a mixture of nationalism and internationalism	Supported nationalism strongly by urging each nation to pursue its unique interests
War and Peace	Believed that international peace would follow the defeat of capitalism	Expressed mixed attitudes toward war and peace	Opposed peace on the belief that it weakened society
Equality	Supported both political and economic equality	Supported political equality but not economic equality	Opposed both political and economic equality
Religion	Advocated atheism	Allowed individual religious liberty	Use religion to build nationalism

KEY TERMS BY THEME

ECONOMICS: Concepts

inflation
deficit spending
relief
recovery
reform
collectivize
kolkhoz
corporatism

ECONOMICS: Events and Policies

Great Depression
New Deal
New Economic Plan (NEP)
Five-Year Plan

ECONOMICS: Economists

John Maynard Keynes

GOVERNMENT: Wars and Rebellions

Russian Civil War
Spanish Civil War
Guernica

GOVERNMENT: Politics

Politburo
Institutional Revolutionary
Party (PRI)

fascism
totalitarian state
Popular Front
Nationalists
Republicans
Loyalists
Luftwaffe

GOVERNMENT: Countries and Regions

Union of Soviet Socialist
Republics (U.S.S.R.)
Soviet Union
Libya
Italian Somaliland
Spanish Republic
Basque region
hypernationalism

GOVERNMENT: Leaders

Franklin Delano Roosevelt
Lázaro Cárdenas
Francisco Franco

GOVERNMENT: Institutions

gulag
PEMEX