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Analysis of the Government's Role in the Economic Crisis During the Interwar Period

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Abstract: An economic crisis or a financial crisis encompasses a broad variety of undesirable situations that impact the economy, including recession, inflation, and stagflation. Using two examples from the Interwar Period, this paper examines the role of the state and its reactions in response to economic crises. Both economic crises led to high unemployment, social unrest, and mass impoverishment in their respective countries. Similarly, both nations found their way out through strong government interventionism and legislative changes, resulting in greater state control over the market. This paper settles on two major economic crises from the early 20th century, hyperinflation in the Weimar Republic and the Great Depression of the United State, and take a further look at the causes of these crises, their impacts, and the state's efforts to overcome them. In conclusion, although two economic crises are specifically caused by different reasons under different backgrounds, both of the countries overcome the effects through more similar procedures. In short, both countries increased their government presence and level of interventionism in the economy. Especially in increasing government investments on public projects, such as infrastructure and improvement on social securities, appeared to be the solution for economic crises during the Interwar Period.

Keywords: Crimes, Interwar, Recession, Hyperinflation, Economic crisis.

1. Introduction

The Great War lasted a profound amount of economic turmoil that gripped the world and had long-lasting consequences. Germany, as the loser of the war, had removed their Kaiser as a newborn republic. However, it soon found itself trampled with debts, social unrests, and staginflation where inflation and unemployment came together. Although the USA had won the war, the Great Depression soon hit this nation severely and brought impoverishment to every corner of the nation. As the global economy plunged into crisis during the Interwar Period, the responses and policies enacted by these two influential nations would shape the course of the recovery, as well as the geopolitical dynamics that would ultimately plant seeds to lead to the outbreak of World War II.

This paper mainly examines the distinct approaches taken by the German and American governments in addressing the economic challenges of the Interwar Period, and how these efforts shaped the trajectory of the crisis. It explores how the reparations imposed on Germany following the First World War, combines with the government's attempts to stabilize its currency and economy, contributes to the rise of extremist political movements and the eventual collapse of the Weimar Republic. In contrast, this paper analyzes the actions, or inactions, of the U.S. government under

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successive administrations, and how these policies, or lack thereof, exacerbated the severity and duration of the Great Depression.

By comparing and contrasting the roles played by these two great powers, this paper aims to provide a nuanced understanding of the complex interplay between political decision-making, economic forces, and social upheaval during a pivotal era in world history. Through this analysis, people can gain valuable insights into the long-term consequences of governmental responses to economic crises, and how such decisions can shape the course of global events for generations to come.

2. The Causes for Two Economic Disasters

2.1. The Causes of the Great Depression

The industrialists of the United States enjoyed a high degree of economic freedom and growth between the Reconstruction period and the Progressive Era under American laissez-faire policies. This time period fostered the fertile soil of economic growth and industrialization, creating enormous wealth and influential capitalists such as Andrew Carnegie, John Rockefeller, J.P. Morgan, and Cornelius Vanderbilt through their ground-breaking industries.

People would refer to this period as an age of progress or the "Golden Age," but, as British political economist John S. Mill stated, "It is only in the stationary state, when neither rich nor poor are increasing in numbers and capital, that the division of the produce of labour bears a fixed proportion to the amount contributed by each" [1]. Obviously, as long as there are victories for some, there will be defeats for the rest. This period, also referred to as the "Gilded Age" by Mark Twain, had been an inglorious time for many, as the fruits of economic growth had not been distributed evenly within the nation. The industrialists of the Gilded Age also earned themselves the negative term "Robber Barons," representing their success as industrialists but operating with business practices often considered ruthless or unethical [2]. Although the United States became more and more prosperous over time, inequality was not eliminated but often overlooked by the waves of economic prosperity, immigration, new fashions, and the rise of new technologies like the radio and automobile, which overshadowed hidden problems in the United States.

The business cycle, a concept first proposed by French economist Clément Juglar in 1860, describes three phases in the economy: prosperity, crisis, and liquidation, which repeat [3]. Major economic downturns will happen after continuous growth of the economy, just as the business cycle indicates, and one of the great downturns for America was only ahead.

The Great Depression started with the Wall Street Crash of 1929, and from this point, the waves of depression soon hit far beyond state or national borders. Agriculture was one of the first industries to be damaged. According to *Charleston and the Great Depression: A Documentary History, 1929-1941* published by the University of South Carolina Press, the U.S. Census Bureau reports that the number of farms in Charleston County decreased by 49% over the past decade on September 1930 [4]. In less than a year from the Wall Street Crash, an agricultural state in the Deep South suffered massive unemployment in its agricultural industries. Similar scenarios happened all over the nation. For instance, in Wisconsin, dairy farmers received on the average less than one dollar per hundredweight of milk in 1932 and 1933 after being paid almost three dollars in 1919 and about two dollars in 1929 [5]. This decrease in demand and price caused producers in Wisconsin to no longer be able to sustain their dairy farms, leading to the infamous 1933 Wisconsin Milk Strike, where milk was dumped rather than consumed by Americans.

Another important factor that contributed to poverty and lower levels of consumption was *the 18th Amendment to the Constitution* that instituted nationwide prohibition on alcohol. To illustrate the importance of alcohol in the American economy, the taxes on alcohol contributed over 40% of federal

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revenue before prohibition [6]. To make up for the lost tax revenue after the prohibition on alcohol, the federal government decided to enforce new income taxes, thus deducting from Americans' disposable income for consumption, one of the most significant factors in GDP.

This scenario could be attributed to the overproduction from the incorporation of new technologies in the agricultural industry, unemployment or low incomes causing people to be unable to afford the products, and the loss of international consumers due to the war and depression. In short, if the labor force is no longer able to consume, they will soon lose their jobs, and the cycle will continue until almost everyone is unemployed with barely any consumption and production.

2.2. The Causes of the German Hyperinflation

For Germany, the story was different. This country participated in the Great War from the start to the very end, spending 170 billion Reichsmarks and losing millions of the nation's most elite and educated youth in the mud and trenches of the Great War. Unfortunately for Germany, they failed to achieve victory or winning leverages for a truce from the Entente in the Kaiserschlacht due to logistical issues and were forced to capitulate after the Hundred Days Offensive and the capitulation of its allies.

The peace treaty after the German capitulation, the Treaty of Versailles, was signed by Germany and the Allied Nations on June 28, 1919, formally ending World War I. Its terms were harsh, intended to punish Germany and cover the Allies' losses in the war. According to the treaty, Germany had to pay financial reparations, reduce its army to 100,000 men, surrender Alsace-Lorraine, Posen with rich farmland, Danzig that cut East Prussia away from the Reich, Upper Silesia, and hand the most prosperous Rhineland to Allied military administration [7].

The treaty demanded far more than just land and money. According to *L'HYPERINFLATION : UN BILAN POUR LE CENTENAIRE DE L'EXPÉRIENCE ALLEMANDE DES ANNÉES 1920*, the Treaty of Versailles and the London Agreements required that Germany pay part of the reparations in the form of deliveries in kind and of all kinds, such as livestock, dry docks, chemical dyes, coal, etc [8]. All of this had severely damaged the German economy.

Although the Great War had ended, fighting in Germany did not stop. After the abdication of Wilhelm II, the November Revolution had broken out in Germany, with revolutionaries controlling some of the most important regions and industries during the war. Although the Weimar Republic's Army Reichswehr and loyalist militias such as the Freikorps and Der Stahlhelm managed to suppress the rebels by late 1919, the turmoil had severely disrupted production and daily life in Germany. Yet, Polish rebels in Silesia had formed the Polish Military Organization of Upper Silesia with around 20,000 members, forcing the Weimar Republic to mobilize all possible powers to fight the Polish separatists. This included the "Garde-Kavallerie-Schützen-Division" from the Guard Corps of the old Imperial German Army, loyalist militias, and the Reichswehr.

Some of the funds for the German battles after the Great War came from private businesses, but many came from the new and troubled Weimar government. The elevated war reparations demanded by the Entente, expenses for the expensive wars, and the loss of revenues and industries from the Treaty of Versailles had finally led the German central bank to begin printing money to fund the strikers. The Reichsbank employed three times as many employees in 1923, issued more and more bills, and drove inflation even further [9]. Finally, hyperinflation hit the nation, with prices rising by 50% in a month in 1923. For comparison, the German currency was relatively stable at 90 marks per dollar in the first half of 1921, but by November 1923, one dollar now equaled one trillion marks [10], triggering the infamous German hyperinflation.

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3. Impacts of Economic Crisis

3.1. Impacts on the US Soil

The level of violence and crimes was significantly higher in the United States long before the Great Depression, particularly high during the Great Depression. In *The Roots of Violent Crime in America: From the Gilded Age through the Great Depression*, American criminologist Barry Latzer gave a detailed view of crimes between 1880 and 1940, particularly the Great Depression of the 1930s. In his assertion, he believes a wide variety of "subcultures" were the agitators of the violent nature of the time. A prominent example of a subculture of violence is between African Americans and white inhabitants of the southern states. This legacy of violence rooted all the way from the Reconstruction when the Union soldiers retreated led acquiescence for southerners' freedom before the Civil War, including oppression and exploitation of the African Americans. This rivalry between black and white had been long-lasting and violent in the United States, even in the 21st century.

Besides from discrimination, rapid growth cities, mass immigrations, and poverty each contribution considerable amount of violence in the US. To narrow down, this paper takes a look on the Prohibition and how it foster grand fields of illegal industries.

The 18th Amendment, passing on January 16, 1919, prohibits all manufacture, sale, importation or transportation of intoxicating liquors and bans the use of alcohol in all United States territories [11]. However, the large demand for alcohol in the United States is not going to vanish just because of an amendment in the constitution, thus leading to an informal and illegal market of beverages of considerable size throughout the nation. As illegal markets are unregulated and informal, it fosters a fertile soil for organized crime and violence. Taking Alphonse Capone as an example, one of the most violent and notorious gangsters in US history, he made a significant level of wealth selling illegal beverages during the Prohibition era.

The significant amount of profit of dealing alcohol in the prohibition era became attractive to considerable amount of poor immigrants. According to the mob museum, the new alcohol trafficking gangs during Prohibition also crossed ethnic lines, with Italians, Irish, Jews and Poles working with each other, although inter-gang rivalries, shootings, bombings and killings would shape the 1920s and early 30s. More than 1,000 people were killed in New York alone in Mob clashes during Prohibition [12].

3.2. Impacts on German Soils

The Weimar Republic inherited tons of troubles from the Second Reich when it was founded at the end of the Great War. Besides the strict punishments from *the Treaty of Versailles*, the Entente had enforced a series of harsh treatments that were not included in the treaty. For instance, the Entente occupied Rhineland, the most industrialized and wealthy region of Germany. The Entente aimed to confiscate German industries as war reparations payments as the high war reparations appeared to be unrealistic for the fragile newborn republic to afford. They Entente occupied all the German possessions in the Rhineland; this includes coal mines, railways, steel works and factories, which were essential to Germany's economy.

After the Great War, the regime changes in Russia, and the dissolution of the Austria-Hungarian Empire provides Poland, a nation segregated for centuries to be founded once again. As one of the belligerents in the partitions of Poland, Germany was forced to concede the German states of Poznan, West Prussia, and Upper Silesia to Poland. Before the League of Nations enforced the treaty on Germany in Upper Silesia, Silesian residents who are ethnically Polish had uprisings and clashed with the German police and militias who sought to keep Upper Silesia. Although the massive German Imperial army was mostly disbanded, patriotic veterans with experience formed massive organized

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paramilitary organizations to defend the borders. In this period, massive militia organizations were formed, taking the Freikorps as an example. They maintained a stronghold of 1.5 million men and were under the command of the German Supreme Army Command [13]. The expensive and violent battles in Germany had undeniably worsened the German financial situation and industrial production, which are important to the nation's economy.

After 1923, when the German hyperinflation arrived, uprisings and rebellions had sparkled everywhere in the nation. The Weimar government enjoys a little amount of authority and always encounters fierce government. The years of hardships had eventually led to political violence and strong radicalism, which provided fertile soil for the wildest beast in the history of Germany, the National Socialist German Workers' Party, better known as the Nazi Party.

On November 8th, the leader of the Nazi Party, Adolf Hitler, with inspirations from Mussolini's march on Rome, orchestrated the infamous Beer Hall Putsch in Munich. Although this march eventually failed with Hitler under arrest, the Nazi Party, which focused on the critical problems and promised everyone solutions, received more and more sympathy and support in Germany. After the retirement of Ludendorff and having Hitler hold absolute leadership in the party, it soon became the largest party in the Reichstag in July 1932.

To solidify its absolute power in the Reichstag, the Nazi Party orchestrated the Reichstag Fire and accused their Communist opposition for this disaster. This allowed the Nazi to enforce the status of emergency in the nation by passing the Reichstag Fire Decree outlawing all dissents of the party and establish Germany into an one-party state under the autocracy rule of the Nazi Party.

After Nazi seizures of power and suppressing all possible challenges to its rule, Germany has started its craziest plan to bring Germany and its people the status of hegemony over the world through the medium of violence and blood. In November 1938, the party had their eyes pointed at the wealthy Jewish population in Germany and plotted the disastrous Kristallnacht, also known as the Night of Broken Glass, seizing Jewish wealth and purging them, starting the Holocaust, one of the deadliest genocides in human history.

4. Countermeasures

The Great Depression was successfully addressed through the famous "New Deal", backed by the 32nd President of the United States, Franklin D. Roosevelt. Through this New Deal, Franklin managed to pull America from a disastrous crisis back to a highly developed and industrialized great power, laying the foundations for the superpower that would thrive during the Cold War.

The first New Deal, initiated by Franklin, was passed in 1933 and rested on three major pillars: relief for the unemployed, recovery of the economy, and reform of the banking system. To support the struggling unemployed population and put them to work, the New Deal established agencies such as the Works Progress Administration (WPA) and the Civilian Conservation Corps (CCC), which employed people in meaningful jobs. Statistically, the WPA alone created 8.5 million jobs, initiating construction projects that laid down essential infrastructure, including more than 650,000 miles of roads, 125,000 public buildings, 75,000 bridges, and 8,000 parks [14]. In addition to these construction efforts, the New Deal emphasized ethical practices in business. For instance, the National Recovery Administration (NRA) was granted authority by the New Deal to help shape industrial codes governing trade practices, including minimum wages, maximum working hours, restrictions on child labor, and collective bargaining. This series of reforms provided employment opportunities for those who lost their income during the Great Depression and improved working conditions—issues that had plagued Americans since the Gilded Age.

Consequently, the New Deal created new hope and improved morale among exhausted American citizens who had just endured the Great Depression. Far from the highly industrialized North, the New Deal brought hope to every state and county that had been severely damaged by the crisis. A.D.

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Prentiss, a pastor of a rural congregation near Beaufort, South Carolina, wrote to Franklin, stating, "I have your letter. I am glad that the new Social Security Law will soon be in effect; it did not come too early. I think this is one of the greatest things for our country's good. I also hope that the Work Program will benefit all of our people in need of employment" [4].

Beyond improvements on a microscale for individual laborers, the New Deal made significant reforms to the banking system, preventing a recurrence of events like the Stock Market Crash of 1929. The Securities and Exchange Commission was founded in 1934, working to end misleading sales practices and stock manipulations that had led to the crash. The Great Depression also attracted attention from some of the brightest minds around the world, including British economist John Maynard Keynes. Keynes challenged laissez-faire policies and traditional theories suggesting that the free market would automatically create full employment. Instead, he called for government intervention in the economy, which he argued lacked a self-balancing mechanism under laissez-faire.

Germany faced even more severe challenges compared to the United States. As the nation that lost the war, Germany was burdened with astronomical war reparations from the Entente. To address its financial instability, the Weimar Republic replaced the valuable paper Mark with the Rentenmark and eventually the Reichsmark, which were backed by industries rather than gold reserves. Additionally, the Weimar government enforced the Dawes Plan in 1924 and the Young Plan in 1929. The Dawes Plan loaned 800 million Reichsmarks to German industries and reduced fixed annual payments of war reparations to 50 million pounds sterling. The Young Plan aimed to lower total reparations from 6.6 billion pounds sterling to 2 billion pounds sterling and extended the payment period to 1988. As part of the Young Plan, the occupation of the Rhineland ended in 1930, concluding 11 years of Entente rule over the left bank of the Rhine, a crucial economic area for the nation [10].

After Adolf Hitler and the Nazi Party rose to power in 1933, Hitler ordered the construction of the Autobahn in September 1933, under the direction of chief engineer Fritz Todt. By May 19, 1935, the first section of a 14-mile expressway between Frankfurt and Darmstadt was completed. Germany began employing increasing numbers of unemployed laborers in infrastructure construction, a strategy similar to the WPA under FDR's New Deal. By December 1941, despite the harsh defeats of the Heer on the Eastern Front, which halted construction, Germany had completed 2,400 miles (3,860 km) of the Autobahn, with another 1,550 miles (2,500 km) under construction [15].

Similarly, a significant amount of government intervention was employed in Germany. Unlike the United States, the Weimar government, inherited from the Kaiserreich under an absolute monarchy, had a more substantial role and power. Richard Overy, in his publication *The Nazi Economic Recovery 1932–1938*, described the German economic recovery under Nazi leadership as "an example of state-led growth in what was still ostensibly a capitalist economy." He noted that "the features of the revival—control of trade, intervention in the capital market, high levels of investment, and a rapid return to full employment—were dictated by the strategies of the regime, not the pressures of the marketplace" [16].

Through similar measures of massive government intervention, both the United States and Germany were able to counter major economic crises. These conclusions highlight that such outcomes are unlikely to be achieved under purely liberal markets with minimal regulation due to the lack of boundaries.

5. Conclusion

In two instances, major economic problems have sparked a series of blunders, such as violence and crime, due to unemployment and poverty. When the general public loses their incomes from legitimate sources, they must obtain their necessities through other means. Whether it is the organized crime that occurred in the United States or the socialist uprisings that erupted in Germany, both movements had a clear goal: to improve the status quo for the poor, huddled masses.

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Both countries experienced dramatic changes following the Great War, which undeniably contributed to the outbreak of both economic crises. However, evidence from the Great Depression and the German hyperinflation shows that the prosperity of a free market is unsustainable in the long run. Specifically, the nature of economics tends to create a Nash zero-sum equilibrium, where nobody is better off unless someone else is worse off. As wealth and progress accumulate in the hands of a few—through the roaring railways of the Gilded Age and the machines of the Rhineland—the widening wealth gap becomes inevitable and complements the decline in consumption, threatening the operations of producers.

In both instances, government intervention could have helped both societies recover from these drastic disasters by relieving the poor, employing them in massive public works such as infrastructure, and reforming flaws in the monetary system. However, this is not necessarily the case today. Indeed, a few decades after the Great Depression, the United States implemented more government intervention and social welfare programs. Massive disputes arose regarding the righteousness of interventionism, particularly when welfare was perceived to be abused, leading to the term "welfare queen", which depicts individuals who exploit the system to become elites rather than using it to escape poverty. This has left the existence and extent of a welfare system as a contentious issue among many politicians and voters in America. Future research may plan to take a deeper dive into the 21st century and examine the current economic hardships facing specific countries, contrasting opinions on welfare, and the modern social norms of those struggling in poverty.

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