

# Economics of History Activity

networks

## World War I and Its Aftermath, 1914–1920

### Postwar Economic Turmoil

*During World War I, the federal government created new agencies to manage the economy to ensure a successful war effort. When the war ended, the economic landscape in America changed suddenly. Government agencies removed their controls from the economy, and two million soldiers returned home looking for jobs. The economy, however, was going into a postwar slump.*

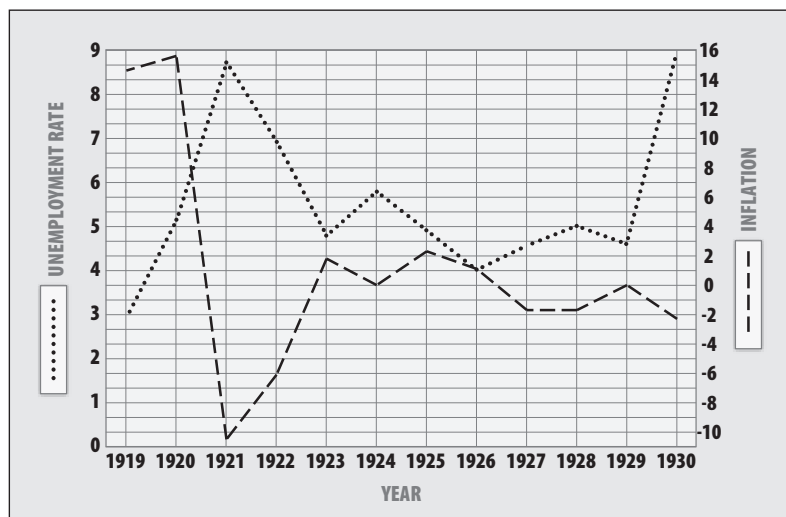
#### Economics Terms to Know

**recession** a prolonged decline in economic activity

**inflation** the loss of value of money

The end of wartime production and controls resulted in a sudden **recession** in the United States. Both unemployment and **inflation** increased significantly in the years immediately following the war. The rise in unemployment was largely a result of the end of government orders for war materials and demobilization. Factories laid off workers and the military discharged two million soldiers. With civilian employment down and a large population of ex-soldiers looking for jobs, unemployment rose sharply.

Inflation resulted from the end of government controls. People raced to buy goods that had been rationed, and with demand rising quickly, prices jumped. Businesses also moved to raise prices that they had been forced to keep low during the war. The combination of unemployment and inflation plunged the United States into an economic crisis and resulted in suffering and a rise in labor disturbances.



### Applying Economics to History

1. What was the main factor that led to rising unemployment and rising inflation in the years immediately after World War I ended?
2. Why do you think inflation contributed to an increase in labor disturbances such as strikes and work slowdowns?
3. In your opinion, why had unemployment and extreme inflation and deflation been significantly reduced by the middle of the 1920s?