

## The Wall Street Crash and the Great Depression in Europe

What is a recession?  
Depression?

### **Economic effects of the First World War**

#### 1. World trade:

Import substitution; greater agricultural exports from USA, Argentina, Australia; failure of western Europe to produce right kind of goods: in sum a problem of adaptation.

#### 2. Economic effects of politics:

Nationalism > new states and protectionism, need for foreign capital.

#### 3. Changed pattern of international debt and capital flows:

New York took on the role of London as international centre for world finance, but without taking on role as financial leader of world. Kindleberger: GB could not and the USA would not act as stabilizer. Failure to resolve problems of reparations and other international debt. The USA virtually self-sufficient: almost impossible for debtor nations to export to USA. Worsened problem in 1930: the Smoot-Hawley act raised tariffs on 20,000 imported goods. 1931: moratorium - temporary suspension of payments - on war debts and reparations. World imports and exports dropped by 66 per cent between 1929 and 1934.

### **The 1929 crash**

#### 1. Prologue: The agricultural crisis

Depression in agriculture visible well before Wall St crash (October 1929): prices falling in some countries (Australia) since 1925. Overproduction worldwide.

#### 2. The Financial crisis

Structural weakness of German banks because of hyperinflation, but also weak banking system elsewhere in continental Europe. Dependence on foreign capital borrowed on short-term loans, but lent out long-term. Over one-third of all deposits in the German big banks came from abroad. Rapid rise on New York Stock Exchange 1928-29. This cut off lending by US to Europe, especially lending to Germany, and also to Australia & Latin America.

#### 3. Cyclical downturn in production

Downturn in business cycle well before October 1929 – unemployment in Germany 3 million by January 1929.

### **The effects of the crash**

Most serious crisis in history of capitalism. At peak of crisis in 1932, industrial production in the two countries worst hit, the USA and Germany, was only half what it had been before slump.

Examples: Germany and France.

Germany already in a cyclical downturn; crisis in agriculture since 1927. Austrian bank Creditanstalt collapsed in summer 1931; the ripple effects brought down the

German banks, credit dried up, and many major factories had to close their gates. A major German bank, the Danatbank failed on 13 July leading to a general run on the banks as depositors tried to withdraw their money. The government had to close all banks for 2 days, and then all the major German banks had to be nationalized.

- Why was Depression especially severe in Germany?
- 'Sick economy' (H. James, Borchardt) - wages and state spending too high?
- Demographic factor: many more young people on labour market.
- High productivity at the wrong time.
- Depression cured or worsened by politics of deflation (Brüning)?

France: 'l'île heureuse'. Continued growth 1929-30, virtually no unemployment.

- Why? Devaluation of franc.
- End of export-led boom 1931 with devaluation of £ Sterling.
- Response of government and industrialists? Deflation, protective tariffs, import quotas, production restrictions.

### **Policies to deal with the depression**

Germany and Sweden: proto-Keynesian policies?

Sweden: Theories of economists Gunnar Myrdal and Bertil Ohlin were adopted by the Swedish social-democratic party, which won the elections 1932 on basis of this programme to solve the economic crisis: the state should defy conventional wisdom and not try to balance the budget, but deliberately go into deficit to finance new works and provide jobs. This would lead to overall increase in demand and by multiplier effects raise the general level of the economy. Balance the budget over the long term of the economic cycle.

A Nazi economic recovery? Deficit financing, predicated on war of conquest.

Figure 5. New York stock prices (Standard Statistics index) (1926 = 100), 1926-38.

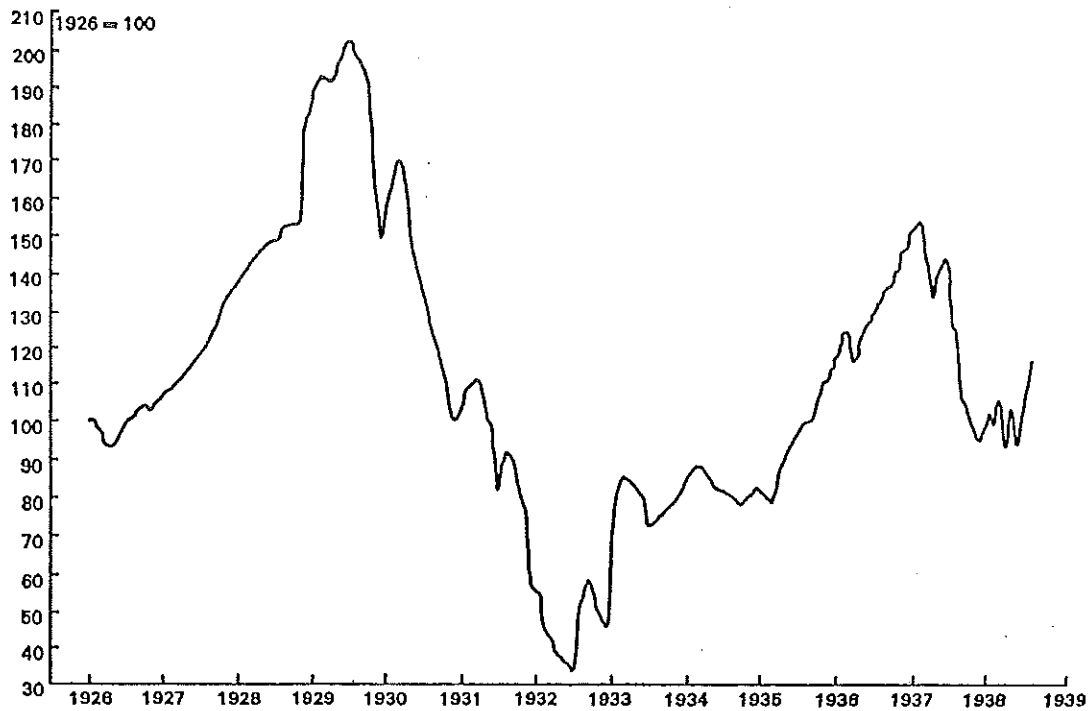
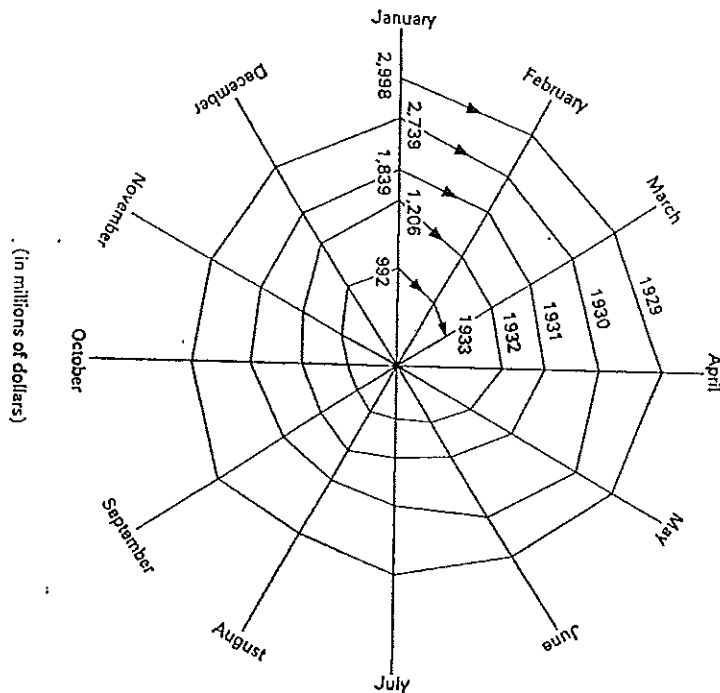


Figure 10. The contracting spiral of world trade. January 1929-March 1933. Total imports of 75 countries (monthly values in terms of old U.S. gold dollars [millions]).



	1929	1930	1931	1932	1933
I	2,997.7	2,738.9	1,838.9	1,206.0	992.4
II	2,630.3	2,454.6	1,700.5	1,186.7	944.0
III	2,814.8	2,563.9	1,889.1	1,230.4	1,056.9
IV	3,039.1	2,449.9	1,796.4	1,212.8	
V	2,967.6	2,447.0	1,764.3	1,150.5	
VI	2,791.0	2,325.7	1,732.3	1,144.7	
VII	2,813.9	2,189.5	1,679.6	993.7	
VIII	2,818.5	2,137.7	1,585.9	1,004.6	
IX	2,773.9	2,164.8	1,572.1	1,028.8	
X	2,866.8	2,300.8	1,556.3	1,098.4	
XI	2,793.9	2,051.3	1,470.0	1,093.3	
XII	2,793.9	2,095.9	1,426.9	1,121.2	
Average:	2,858.0	2,326.7	1,667.7	1,122.0	

SOURCE: League of Nations, *Monthly Bulletin of Statistics*, February 1934, p. 51.

Source: Charles P. Kindleberger, *The World in Depression 1929-1938* London 1987

## Literature

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## The Depression in Europe, 1929-39

### 1. Gross domestic product and manufacturing production

Percentage changes in gross domestic product and manufacturing production 1913-1938

Country	<i>Gross Domestic Product</i>				<i>Manufacturing Production</i>			
	1913-29	1929- 1931/33	1931/32- 1937/38	1929- 1937/38	1913-29	1929- 1931/33	1931/32- 1937/38	1929- 1937/38
Austria	5.1	-22.5	25.8	-2.5	18.0	-34.3	53.9	1.0
Belgium	25.5	-7.1	9.8	2.0	39.9	-27.1	42.3	3.7
Denmark	53.0	4.3	16.9	21.9	48.7	-5.6	47.1	38.9
Finland	45.6	-4.0	46.9	41.1	97.6	-15.0	89.4	60.9
France	34.4	-14.7	13.5	-3.1	42.7	-25.6	20.0	-10.7
Germany	21.3	-23.5	63.7	25.2	17.3	-40.8	122.2	31.6
Greece	70.2	-6.5	40.5	31.4	-	0.9	60.0	61.5
Italy	31.1	-5.5	21.7	15.0	81.0	-22.7	48.5	14.8
Netherlands	77.4	-7.8	14.4	5.5	87.3	-9.8	35.1	22.0
Norway	58.6	-1.0	32.5	31.2	31.2	-18.2	58.7	29.9
Portugal	27.2	13.3	14.4	29.7	-	33.0	9.8	46.0
Spain*	49.7	-5.3	-9.4	-14.2	-	-15.7	-19.7	-32.3
Sweden	35.9	-4.3	31.4	25.8	50.8	-10.8	72.4	53.8
Switzerland	54.5	-8.0	14.4	5.2	17.5	-20.8	29.8	2.8
UK	11.9	-5.8	25.7	18.4	22.0	-10.8	49.0	32.9
Bulgaria	-2.2	27.3	17.2	49.1	79.0	8.9	25.6	36.9
Czechoslovakia	52.2	-14.1	14.6	-1.6	71.8	-39.8	60.0	-3.7
Hungary	29.2	-9.4	26.4	14.6	13.9	-19.8	64.2	31.7
Poland	-	-20.7	44.9	14.9	-14.1	-38.6	99.6	22.5
Romania	-	-1.2	16.3	15.0	36.9	-18.2	63.4	33.6
Yugoslavia	-	-11.9	28.0	12.8	40.0	-17.1	63.8	35.7
USSR	2.6	6.7	59.3	70.0	-	66.7	146.7	311.1
USA	63.0	-28.5	38.1	-1.3	-	-44.7	86.8	3.3

Source: Derek Aldcroft, *The European Economy 1914-2000*, 4th ed., London: Routledge, 2001, p. 62

### 2. Unemployment (% of workforce)

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Germany	4.3	15.3	23.3	30.1	26.3	14.9	11.6	8.3	4.6	2.1
Britain	11	14.6	21.5	22.5	21.3	17.7	16.4	14.3	11.3	13.3

### 3. Prices (Wholesale; 1929 = 100)

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
France	100	87	76	78	83	90	92	97	110	103
Germany	100	91	81	70	68	72	74	76	77	77
Britain	100	88	77	75	75	78	78	83	96	89

Source: Brian Mitchell, *European Historical Statistics 1750-1970*

### 4. Share of world industrial production

	1913	1926-29
USA	35.8%	42.2%
Germany	14.3%	11.6%
UK	14.1%	9.4%

Source: Werner Plumpe, *Wirtschaftskrisen. Geschichte und Gegenwart*, (2010) p. 73.

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