Module 04: The End of Optimism? The Great Depression in Europe

Assignments

Written Text (With Optional Audio)

During the 1920s, European banks had become increasingly dependent on American credit to pay for economic reconstruction following the First World War, to meet the reparations imposed on the defeated powers, and to overcome significant economic problems during the early 1920s. In the months that followed the October 1929 Wall Street crash, American banks began to call in short-term loans in order to acquire the capital needed to meet their obligations to investors.

In addition, American banks greatly restricted the loans being offered either domestically or internationally. European governments responded to the decreased availability of credit by reducing state expenditures, including cutting spending on social programs. These measures were not sufficient to restore the flow of capital, however, and trade between Europe and the United States as well as trade among European states declined. Falling demand for goods led to cuts in production, which in turn contributed to the growth of unemployment. Decreased economic activity in turn limited the availability of capital, which weakened European banks already hurt by the withdrawal of American capital.

In early 1931, a series of bank failures illustrated the spreading effects of the economic crisis throughout Europe. Bank failures further constricted the availability of capital, which in turn caused decreased trade, investment, and production. Unemployment rates reached very high levels, and the visibility of the unemployed in newspaper reports and on street corners reinforced the sense of growing crisis. A mood of despair and disenchantment spread across Europe in the wake of the economic collapse.