

Chapter 7

Great Depression

ABSTRACT

The global economic crisis in 1929 is known among economists as the most important crisis in world history. With the loss of value in the New York Stock Market on October 24, 1929, the whole world was pooled into one of the greatest depressions in history. Because of the crisis, global stock markets entered the process of depreciation, bankruptcies occurred in banks, and rapid decreases occurred in total consumption and investments. In this period, which is known as the biggest economic crisis in the world, people had difficulty in finding food and clothing, and because of this reason, they had to find their own saving methods. Millions of people were unemployed, even those who lived in wealth and had higher education fought with hunger in the streets, and hundreds of suicides took place. The year 1929, comprising one of the most difficult periods in world history, and the years following it constitute an important place in the dark memories of almost each country.

INTRODUCTION

After First World War, the states which participated in war had their own economic and political problems. None of the states that participated in war (Except for England and the USA) tried to meet some of the war expenses by increasing taxes. States relied almost entirely on the debts received, if the defeated party would pay the bill, namely, the agreed compensation. Firstly, World War I increased inadequate expenditures. Increase in imports and the

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decrease in exports have significantly shaken the financial organization. In the period between years of 1920 and 1929, the industrial countries of Europe aimed to repair the destruction caused by the war. On the other hand, USA came out of the war as undamaged and capitalism became very popular in the country. Stocks were continuously increasing, and the economy was growing with a tremendous momentum. USA increased its national income from 33 billion dollars to 72 billion dollars in the period of 1913-1928 by keeping 50% stock of the world's gold stock, and it gradually began to become the industrial and financial center of the capitalist world (Hamitoğulları, 1986). United States had become Europe's largest creditor. Furthermore, it won the title of the country with the most credit in the world. America had debts from everyone and wanted war reparations from Europe in terms of gold. But the gold stock in the world was inadequate and the existing stock was already managed by America. For this reason, countries such as Germany and England could not pay their debts. There was no real money in the market, money floating on paper and credits did not actually exist (Historical Events).

Table 1. Countries owing debts against United States of America following First World War and the relevant repayments (in million dollars)

Debtors	Principal Amount	Interest	Total Debt Amount	Repayment Date
Austria	24	1	25	1930 (May)
Belgium	377	41	418	1945 (August)
Czechoslovakia	92	23	115	1925 (October)
Estonia	12	2	14	1925 (October)
Finland	8	1	9	1923 (May)
France	3.341	684	4.025	1926 (April)
Britain	4.075	525	4.600	1923 (June)
Greece	15	3	18	1929 (May)
Italy	1.648	394	2.042	1925 (November)

Source: Sönmez (2005).

Table 1 shows the debts provided by the USA to some European countries and the time of payment together with the interest. Gains or losses between the three most developed countries of Europe, namely England, France, and Germany, would not remove the problems that need solution and would increase the elements that will destroy Liberal Capitalism because of war.

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