The great depression

The Great Depression After the World War II, most European countries that had allied with the US owed great sums of money to American banks. They could not refund the money out of their treasuries yet the US could not reduce or forgive the debts. Instead, they were given more loans leading to pile up of new loans. A fall in the US economy and high US tariffs made it harder for them to sell their products in the US markets causing them to lack revenue to repay the loans. By 1920s, there was a decline in European demand in US goods due to serious economic crises hence they could not afford to import goods from overseas. After the 1929 stock market crash, there was scramble for liquidity which caused funds to flow back to America while Europe’s fragile economies crushed Spielvogel (416). According to Spielvogel (412), there were widespread structural failures among financial institutions which made banks more vulnerable. The worst hit banks were those tied to agriculture because most farmers defaulted when interest rates rose coupled with low crop prices. Farmers were also already in great debts and they owned over-mortgaged lands due to great increase in land prices in 1919. Other banks were failing to maintain adequate reserves and had resorted to making risky loans or investing more in stock market. However, they were not adequately prepared to absorb to absorb the shock of a great economic recession especially those that lent money to Latin America and Germany. Works cited Spielvogel Jackson. Western Civilization: Volume II: Since 1500. New York. Wadsworth Publishing Co. 2009.