

The Impact of the Great Depression in the USA (1929–1933) on the Economy of the Kingdom of Yugoslavia

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Abstract: - This paper examines the onset of the Great Depression in the United States (1929–1933) and its impact on the economy of the Kingdom of Yugoslavia. Economic and financial crises have been recurring phenomena throughout history, often leaving profound and lasting consequences on affected nations. The Great Depression triggered unexpected and far-reaching changes across the global economic landscape. Originating in the United States, the crisis quickly spread to Europe, significantly disrupting both economic activity and social structures. The Kingdom of Yugoslavia, despite its peripheral position in the global economy, experienced substantial repercussions, particularly in terms of agricultural decline, industrial stagnation, and financial instability. This study analyses the mechanisms through which the crisis penetrated the Yugoslav economy, emphasizing the interconnectedness of international markets and the vulnerability of semi-peripheral economies to global economic shocks.

Key-Words: - Great Depression, economic crisis, financial instability, Kingdom of Yugoslavia, interwar period

Received: May 16, 2025. Revised: June 23, 2025. Accepted: September 11, 2025. Published: October 17, 2025.

1 Introduction

The Great Depression, which began in October 1929 in the United States with the stock market crash in New York, quickly spread across the globe due to the interconnected nature of the world economy. Like a wildfire, it affected virtually all sectors of economic activity with equal force. Economists have long sought to understand financial crises - investigating their causes and consequences, the mechanisms through which they are transmitted, and the interrelations between different types of crises. This pursuit becomes especially pronounced in the wake of a new crisis, as scholars often turn to historical precedents for insight.

One of the most commonly employed approaches to analysing financial crises is through the study of past episodes - preferably those bearing similarity to the present context. In this way, understanding the past becomes essential for interpreting the present and anticipating future risks.

This research paper explores the emergence of the Great Depression and the devastating impact it had on economic systems, with a specific focus on the economy of the Kingdom of Yugoslavia between 1929 and 1933.

2 The Great Depression in the United States

2.1 The Onset of the Depression in the U.S.

By the late 1920s, while Europe was still grappling with the aftermath of the destruction brought by the First World War, the American economy was booming and had become the largest in the world. However, long-term vulnerabilities had been accumulating just beneath the surface.

Firstly, American companies earned record profits throughout the 1920s and reinvested a significant portion of these funds into business

expansion. By 1929, corporate growth had reached a speculative bubble. Despite enormous profits, wages increased only gradually, widening the gap in wealth distribution and weakening overall purchasing power.

Secondly, the American banking system exhibited fundamental structural weaknesses. Banks operated without safeguards for their clients, fostering an atmosphere of panic once early signs of trouble emerged. Furthermore, lax regulatory oversight allowed banks to lend money to individuals who recklessly speculated in the stock market. The economy was also characterized by collapsing farm prices and industrial overproduction.

Thirdly, as the Depression spread across the Atlantic, European countries drastically reduced their imports of American goods, further deteriorating the export sector and aggravating the U.S. macroeconomic condition.

Lastly, President Herbert Hoover's minimalist approach to government intervention during the crisis did little - or nothing at all - to mitigate the collapse, allowing the economy to continue its downward spiral year after year.

Under such conditions, the entire system began to unravel. The American economy plunged into the deepest and most prolonged economic crisis in its history.

2.2 The Crash

How did the crash begin? What was the main *trigger* that ignited the entire collapse? How did the downturn manifest itself? To answer these questions, we must return to the beginning of this paper, where we presented the most basic definition of a financial crisis. It is commonly stated that a financial crisis is marked by a significant decline in stock values. But what causes stock prices to fall?

Stock market operations - including those of the New York Stock Exchange - can be quite complex, but when simplified, the basic principle is this: when investors believe a stock is valuable, they are willing to pay more for a share, causing its price to rise. Conversely, when traders anticipate a decline in value, they are reluctant to buy, and sellers cannot command

high prices. If all investors simultaneously attempt to sell their shares and no buyers emerge, market value plummets.

This is exactly what occurred with the New York Stock Exchange in 1929. Fueled by unchecked optimism, the value of the stock market soared. To illustrate: in 1925, the total market value of the New York Stock Exchange was \$27 billion. By September 1929, that value had skyrocketed to \$87 billion, meaning the average shareholder's investment had tripled in just four years.

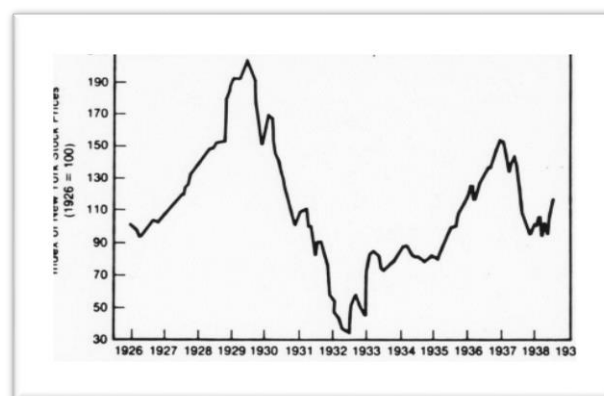


Figure 1 Stock prices, 1929-1939

Source: Historical Statistics of the United States

On **October 24, 1929** - a day that became known as "**Black Thursday**"- a massive sell-off of stocks began. That same day, wealthy financiers such as **J.P. Morgan** pooled their resources and started buying shares to reverse the downward trend. However, their efforts were only partially successful.

The situation deteriorated further, and on **October 29, 1929** - known as "**Black Tuesday**"- a record **16 million shares** were traded, most of them at significantly lower values. For some stocks, no buyers could be found at any price.

By the end of the day, **panic had erupted**, and the downward spiral continued over the following weeks. Within just a few short weeks, the **total market value was slashed in half**.

3 The Consequences of the Great Depression in the USA

The stock market crash had both short-term and long-term consequences. A wave of bank failures devastated the nation, as many banks had invested heavily in the stock market, and a significant portion of loans extended to the American public went unpaid. This had a profound impact on the overall economy.

As Americans witnessed banks shutting down and their savings vanishing, consumer spending declined sharply. Many people who had recently purchased homes, automobiles, and appliances on instalment plans were no longer able to make their payments. In response, businesses began laying off workers to offset growing losses. Meanwhile, manufacturers faced overproduction, resulting in massive unsold inventories.

All of this led to a drastic surge in unemployment. The number of unemployed Americans rose from 1.5 million in 1929 to a staggering 12 million by 1932, accounting for approximately 25% of the total labour force. Mass unemployment further reduced savings and consumption, pushing the economy into an even deeper contraction.

Between 1929 and 1933, industrial production dropped by 46%, wholesale prices declined by 32%, and foreign trade collapsed by 70%. (Jerome Blum, Rondo Cameron, Thomas G. Barnes, *The European World: A History*, 2nd ed., 1970, p. 885). In such conditions, the U.S. Gross Domestic Product (GDP) fell by approximately 30%, while the average household income declined by 40%.

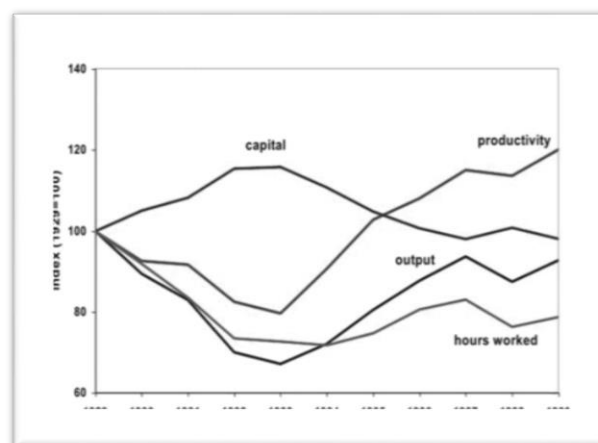


Figure 2 Nominal Economic Growth of the United States, 1929-1939

Source: Timothy J. Kehoe, February 2010

3.1 Recovery After the Great Depression

Once the worst had passed, a slow and difficult process of recovery began. Most economists agree that the recovery started in early 1933 (as shown in Figure 2). However, it is estimated that it took nearly a full decade for the U.S. economy to recover fully. Gross National Product (GNP) only returned to its 1929 level by 1940, while the unemployment rate remained high, at around 15%.

There is less consensus among economists regarding the specific factors that enabled this recovery. Still, many agree that President Franklin D. Roosevelt's New Deal policies played a significant role. While some argue these policies were essential in initiating the recovery process, others believe they merely accelerated it. A minority of economists criticized the broad set of programs as "never aggressive enough to lift the economy fully out of recession."

What Roosevelt promised - and ultimately delivered - through his New Deal was a massive expansion of government intervention aimed at stabilizing the economy, drastically reducing unemployment, providing relief to the most affected populations, and ultimately restoring national economic prosperity. This was to be achieved through various programs and public works projects - ranging from mural painting in post offices to street - cleaning initiatives. Key sectors targeted for intervention included

agriculture and industry, with the government attempting to limit output to raise prices.

The Banking Act of 1933 was equally important - some might argue even more so. It introduced the concept of mandatory reserves, which led to a controlled monetary contraction that, paradoxically, helped initiate the recovery. (Steven Horwitz, January 2011)

As a combined outcome of all these policies and measures - including positive expectations for reflation and rising nominal interest rates, which were influenced by Roosevelt's actions and public messaging - GDP returned to an upward trend by 1938. (Gauti B. Eggertsson, September 2008)

Nonetheless, it is widely believed that the United States economy did not fully recover from the devastation of the Great Depression until the onset of World War II.

4 The Great Depression and the Kingdom of Yugoslavia

The Great Depression of the 1930s, which struck the leading global powers, is widely considered the most severe crisis with devastating worldwide consequences. As previously mentioned, the onset of the Depression in the United States significantly affected European countries - including the Kingdom of Yugoslavia - primarily through the stock market collapse, disruptions in export channels, and the deterioration of trade terms.

It is estimated that the protectionist measures implemented by the United States and other countries were among the key factors contributing to Yugoslavia's economic downturn. During the period of the Great Depression (1929–1933), many European countries were forced to temporarily suspend regular repayment of their foreign debts, including Hungary (1931), Austria (1932), Bulgaria (1932), Greece (1932), Germany (1932), the Kingdom of Yugoslavia (1932), and Romania (1933).

Between 1929 and 1933, as the national income declined, the public debt crisis in the Kingdom of Yugoslavia was triggered. At the same time, the country faced a sharp drop in national

income, a reduction in foreign currency inflows via the current account, and a fall in budget revenues. During this period, public debt increased from 34.7 billion dinars to 38.8 billion dinars, placing the Yugoslav state in an unsustainable fiscal position. The increase in public debt during this time was largely due to a rise in domestic borrowing.

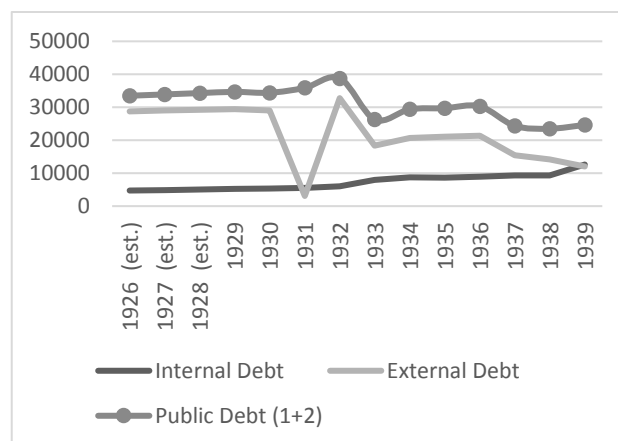


Figure 3 Public Debt of the Kingdom of Yugoslavia, 1926-1939 (in Million Dinars)

Source: Dragana Gnjatović, Vol. 13, No. 3, 2016: pp. 21–44

4.1 Currency Shortages and Trade Disruption in the Kingdom of Yugoslavia

In the less developed European countries - including the Kingdom of Yugoslavia - the shortage of foreign currency was primarily a result of the drastic decline in agricultural exports and remittances from abroad. Consequently, these countries were forced to adopt clearing payment systems with their major trading partners. During the Great Depression, Yugoslavia was compelled to sign clearing agreements with Austria, Czechoslovakia, Belgium, Luxembourg, Italy, France, Switzerland, and Germany.

While these agreements helped facilitate international trade amid a prolonged global crisis, they also had significant drawbacks. Given that clearing arrangements were signed

with nearly all major trading partners, Yugoslavia was unable to retain even half of the total foreign currency earnings generated from exports.

The foreign trade value of the Kingdom of Yugoslavia was severely impacted. Between 1929 and 1932, the inflow of foreign currency recorded in the balance of payments fell from 11.6 billion dinars to 3.9 billion dinars. Export earnings declined from 7.9 billion dinars to 3 billion dinars. Export income from services dropped from 2.1 billion dinars to 612 million, and Yugoslavia also suffered a sharp decline in emigrant remittances - from 888 million dinars to 206 million dinars. (Source: *Workshops – The Experience of Exchange Rate Regimes in Southeastern Europe in a Historical and Comparative Perspective*, No. 13/2007) By 1933 and 1934, a modest recovery was underway: foreign currency inflows reached 6.5 billion dinars by 1934, and export earnings climbed to 5.2 billion dinars. Remittances also improved slightly, rising to 400 million dinars. However, this recovery was uneven and dependent on bilateral agreements - particularly with Germany, Yugoslavia's largest trading partner in the late 1930s.

From 1935 to 1939, trade remained constrained by the rigid structure of clearing agreements. Germany's dominance in bilateral trade intensified, accounting for over 50% of Yugoslavia's foreign trade by 1939. Export revenues stabilized but did not return to pre-Depression levels, partly due to continued price controls, global protectionism, and limited diversification of industrial exports.

Throughout the late 1930s, Yugoslavia saw a gradual shift from agricultural to more industrial exports (such as timber and ores), but dependence on clearing mechanisms meant that foreign currency availability remained artificially restricted. Emigrant remittances stayed below 1929 levels, as labour migration to Western Europe slowed due to unemployment

and restrictive policies. Despite some recovery in nominal figures, the structural weaknesses of Yugoslavia's trade model persisted. The country entered World War II still constrained by bilateralism, foreign dependency, and a lack of convertible currency reserves.

4.2 Yugoslavia's Response to the Crisis

In response to the Great Depression, Balkan governments - including Yugoslavia - pursued three general policy directions:

- Cost reduction
- Debt relief
- Market monopolization

Cost-reduction policies - though limited in scope - included subsidies for technological modernization, promotion of improved agricultural practices, and support for cooperative structures among producers. These initiatives aimed to improve productivity but lacked adequate funding and coordination in the early 1930s.

Debt relief policies were more effective in mitigating the worst social consequences of rural and household indebtedness. The Yugoslav government introduced several key measures:

- Restrictions and moratoriums on foreclosures
- Deferred loan repayment schedules
- Interest rate reductions
- Conversion of short-term rural debt into long-term loans with low, fixed interest rates

In many cases, a portion of debts was written off, and the government intervened directly to compensate lenders - particularly agricultural banks and cooperatives. These measures helped reduce social unrest, especially in agrarian regions hit hardest by price collapses. However,

the state's interference in financial markets had unintended consequences. By limiting lenders' ability to collect on debts, both domestic and foreign investment contracted sharply. Yugoslavia's financial credibility suffered, and capital inflows slowed - further deepening the investment crisis during a period of fragile recovery.

4.2.1 State-Led Economic Reorganization (1935–1939)

From the mid-1930s onward, Yugoslavia shifted from temporary crisis management to more structured state intervention in the economy. Under the influence of economic nationalism and growing ties with Germany, the government increasingly adopted monopolistic and dirigiste policies:

- The state established monopoly institutions over the export of key commodities like wheat, sugar, timber, and ores.
- Through clearing agreements - particularly with Germany - trade became tightly regulated, often negotiated directly by the state rather than private exporters.
- The government promoted import substitution and supported limited industrialization, particularly in mining and chemicals.
- Price controls and quotas were used to protect domestic production but often led to shortages and market inefficiencies.

This period marked a turn toward economic autarky and state capitalism, reflecting broader European trends in the interwar period. While it stabilized some sectors, it also entrenched bureaucratic inefficiencies and left the economy ill-prepared for the looming war.

5 Methodology

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.769 ^a	.591	.475	7.95664

a. Predictors: (Constant), VAR00006, VAR00005

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	641.148	2	320.574	5.064	.044 ^b
	Residual	443.157	7	63.308		
	Total	1084.305	9			

a. Dependent Variable: National income

b. Predictors: (Constant), External debt, domestic debt

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta			
1	(Constant)	23.050	15.848		1.454	.189
	domestic debt	.034	.530	.017	.065	.950
	External debt	-.422	.147	-.762	-2.863	.024

a. Dependent Variable: National income

This analysis examines the impact of domestic debt and external debt (as a percentage of national income) on the national income at current prices (in million denars) in the Kingdom of Yugoslavia during the period 1929–1933.

The regression model indicates a moderate to strong relationship between the independent variables (domestic and external debt) and the dependent variable (national income), with a correlation coefficient (R) of 0.769. The R-squared value of 0.591 suggests that approximately 59.1% of the variation in national income can be explained by changes in domestic and external debt levels. The adjusted R-squared, which accounts for the small sample size and number of predictors, stands at 47.5%, indicating a reasonably good model fit.

The ANOVA results show that the regression model is statistically significant overall, with an

F-statistic of 5.064 and a p-value of 0.044, which is below the standard significance level of 0.05. This confirms that the model, as a whole, reliably explains variation in national income during the observed period.

In terms of individual predictors:

- External debt shows a statistically significant negative effect on national income, with a coefficient of -0.422 and a p-value of 0.024. This means that for every 1% increase in external debt (as a share of national income), the national income decreased by approximately 0.422 million denars, assuming other factors remain constant. The standardized beta coefficient (-0.762) further indicates a strong negative influence of external debt on national income.
- In contrast, domestic debt does not have a statistically significant impact on national income. The coefficient (0.034) and p-value (0.950) suggest a negligible and non-reliable effect.

The regression intercept (constant) is estimated at 23.050, implying that if both types of debt were zero, the national income would be approximately 23.05 million denars.

In conclusion, the findings suggest that external debt had a significant and negative impact on the national income of the Kingdom of Yugoslavia during 1929–1933, while domestic debt did not play a meaningful role. This result may reflect the economic vulnerabilities associated with foreign borrowing during the global Great Depression era, a time of high financial instability and reduced international trade.

6 Conclusion

The Great Depression was not merely a financial collapse - it was a turning point that reshaped the global economic and political landscape. For the Kingdom of Yugoslavia, as for many developing and agrarian economies in Europe, the crisis exposed deep structural vulnerabilities: an overreliance on agricultural exports, limited industrial diversification, a weak fiscal base, and excessive dependence on foreign credit.

Yugoslavia's experience illustrates how a global economic shock can profoundly destabilize national economies - even those geographically distant from major financial centres. Between 1929 and 1932, the collapse of exports, remittances, and foreign currency inflows eroded the country's macroeconomic foundations. The rapid shift to bilateral clearing agreements and protectionist measures marked both a retreat from global markets and an improvised survival mechanism in an increasingly fragmented world economy.

Although the early policy responses - focused on debt relief and minimal support to the agricultural sector - were limited in scope, they signalled a growing recognition that the state could not remain passive in times of systemic crisis. In the second half of the 1930s, Yugoslavia moved further toward state-led economic management, expanding monopolistic institutions, centralizing foreign trade under clearing agreements, and aligning increasingly with Germany as its dominant economic partner. These shifts did not restore pre-crisis prosperity but laid the groundwork for a more interventionist and inward-looking economic strategy.

Ultimately, the legacy of the Great Depression in Yugoslavia lies in its stark demonstration that market forces alone cannot shield vulnerable economies from global disruptions. The crisis not only triggered short-term economic hardship but also catalysed a long-term transformation in the state's role - from passive regulator to active economic actor. This evolution holds enduring relevance, as modern societies continue to face

the dilemma of how best to balance free-market mechanisms with coordinated state intervention during periods of profound instability.

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Contribution of Individual Authors to the Creation of a Scientific Article (Ghostwriting Policy)

The author equally contributed to the present research, at all stages from the formulation of the problem to the final findings and solution.

Sources of Funding for Research Presented in a Scientific Article or Scientific Article Itself

No funding was received for conducting this study.

Conflict of Interest

The author has no conflicts of interest to declare.

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