2Pager: The Crash of 1929

THE ECONOMY OUT OF CONTROL. After the postwar slump of 1921, the idea grew that the economy had entered a new era of permanent growth. Greed then propelled a growing contagion of get-rich-quick schemes. Speculative mania fueled the Florida real-estate boom that began when the Coolidge prosperity combined with Henry Ford's Tin Lizzies to give people extra money and make Florida an accessible playground. Thousands of people invested in Florida real estate, eager for quick profits in the nation's fastest growing state. In the fanfare of fast turnover, the reckless speculation was, if anything, more likely to gain than the prudent investor. In mid-1926, however, the Florida real-estate bubble burst.

For the losers it was a sobering lesson, but it proved to be but an audition for the great bull market in stocks. Until 1927 stock values had gone up with profits, but then they began to soar on wings of pure speculation. Treasury Secretary Andrew Mellon's tax reductions had given people more discretionary income, which with the help of aggressive brokerage houses, found its way to Wall Street.

Instead of speculating in real estate, one could buy stock on margin—that is, make a small down payment (the "margin") and borrow the rest from a broker, who held the stock as security against a down market. If the stock declined and the buyer failed to meet a margin call for more funds, the broker could sell the stock to cover his loan. Brokers' loans more than doubled from 1927 to 1929.

Gamblers in the market ignored warning signs. By 1927 residential construction and automobile sales were catching up to demand, business inventories had risen, and the rate of consumer spending had slowed. By mid-1929 production, employment, and other measures of economic activity were declining.

Still the stock market rose.

By 1929 the stock market had entered a fantasy world. Conservative financiers and brokers who counseled caution were ignored. President Hoover voiced concern about the "orgy of mad speculation," and he urged stock exchange and Federal Reserve officers to discourage speculation in stocks. But to no avail. On September 4 stock prices wavered, and the day after that they dropped, opening a season of fluctuations. The great bull market staggered on into October, trending downward but with enough good days to keep hope alive. On October 22 a leading bank president assured reporters, "I know of nothing fundamentally wrong with the stock market or with the underlying business and credit structure."

THE CRASH AND ITS CAUSES The next day, stock values tumbled, and the day after that a wild scramble to unload stocks lasted until word arrived that leading bankers had formed a pool to buy stocks to halt the slide.

Prices steadied for the rest of the week, but after a weekend to think the situation over, stockholders began to unload. On Tuesday, October 29, the most devastating single day in the market's history, brokers reported sales of 16.4 million shares (at the time the trading of 3 million shares was a busy day). The plunge in prices fed on itself as brokers sold the shares they held for buyers who failed to meet their margin calls. During October, stocks on the New York Stock Exchange fell in value by 37 percent.

Business and government leaders initially expressed confidence that the markets would rebound. According to President Hoover, "the fundamental business of the country" was sound. Some speculators who had gotten out of the market went back in for bargains but only found themselves caught in a slow, tedious erosion of values. By March 1933, the value of stocks on the New York Stock Exchange was less than one fifth of the value at the market's peak. The New York Times stock average, which stood at 452 in September 1929, bottomed at 52 in July 1932.

The collapse of the stock market revealed that the much-trumpeted economic prosperity of the 1920s was built on weak foundations. From 1929 to 1932, personal income declined by more than half. Unemployment soared.

Farmers, already in trouble, faced catastrophe.More than 9,000 banks closed during the period, hundreds of factories and mines shut down, and thousands of farms were foreclosed for debt and sold at auction. A cloak of gloom fell over the nation.

The stock-market crash did not cause the Great Depression, but it did reveal major structural flaws in the economy and in government policies.

Too many businesses had maintained retail prices and taken large profits while holding down wages. As a result, about one third of personal income went to only 5 percent of the population. By plowing most profits back into expansion rather than wage increases, the business sector brought on a growing imbalance between rising productivity and declining purchasing power.

Government policies also contributed to the economic debacle.

High tariffs discouraged foreign trade. Lax enforcement of antitrust laws also encouraged high prices.

Another culprit was the gold standard. The world monetary system remained fragile throughout the 1920s.

What happened instead was that passivity among government and financial leaders turned a recession into the world's worst depression.

According to the 2pager, the economy was out of control. Give **two** ways that that economy was thought to be out of control below:

Explain how people were affected by the crash. Give **specific examples**.

Name and **explain** 3 causes of the Crash: