U.S. History
Miss Golub

And It All Comes Crashing Down… The Road to the Great Depression

Name ________________________
Core __________

The United States enjoyed good economic health in the 1920s, but not everyone was rich or even middle class. Farmers struggled from one harvest to the next. Factory workers struggled from one paycheck to the next. Many African-Americans were desperately poor. But the nation as a whole prospered.

U.S. Family Income Distribution (1929)

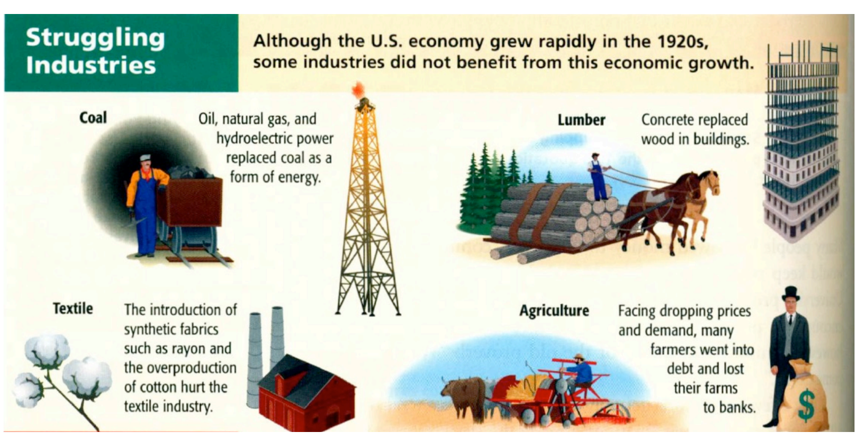
Annual Income	Percent of American Families Earning this Income
Over $10,000	2%
$5,000 - $10,000	6%
$2,000 - $5,000	32%
$1,500 - $2,000	18%
$1,000 - $1,500	21%
Under $1,000	21%

Note: In 1929, a $2000 income was considered the minimum necessary for meeting basic needs of the average US family. It marked the poverty line.

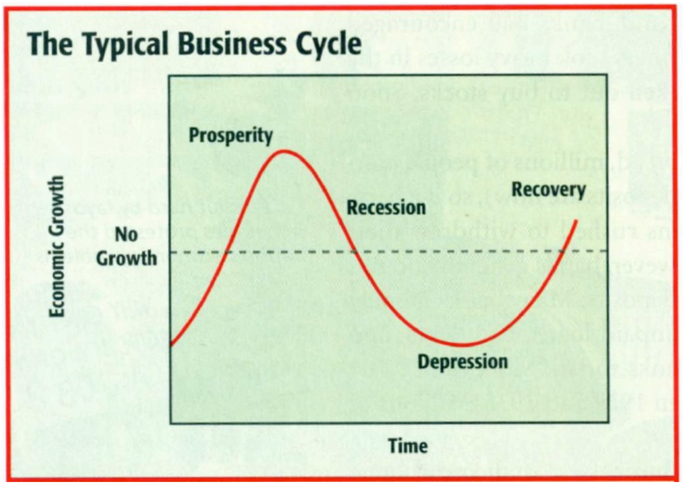
Note: In 1929, the wealthiest 5% of the US population received about 33% of the nation's personal income. In 1948, the wealthiest 5% received less than 20%. (Galbraith, *The Great Crash*, pp. 197-198.)

By 1927, more than 1.5 million people were said to own stock; most people, however, had no savings to invest in the stock market (this was certainly true of immigrants and workers). Between 1927 and 1929, the number of shares of stock that changed hands doubled – from 577 million shares to 1.125 billion shares. By 1929, the average prices on leading stocks were five times what they had been in 1921. But much of the "money" financing the boom did not really exist. Investors bought stocks "on margin", that is, with money borrowed from stockbrokers. By 1928, the amount of money investors owed their brokers was greater than the total of all the money circulating in the United States!

Wall Street gains of the 1920s went mostly into the pockets of the wealthy 5 percent of the population, who received 30 percent of the nation's income. Salaries went up during this period, but the real buying power of workers and farmers either stayed the same or dropped. Advances in technology made factories more efficient, but they also put unskilled workers out of jobs. As a result, there were not enough people with money to buy the good produced. A pattern of poverty and unemployment had been set. By the end of the summer of 1929, there were signs that the boom was over. Stores were filled with goods that couldn't be sold. Construction had long since slowed down, and the prices of farm goods were dropping.



What caused the crash of 1929? One reason was foolish investing. The stock market is intended to be a vehicle of long-term investment and is most successful for everyone (businesses, consumers, and the economy) when treated as such. The investors of the 1920s, however, dabbled in the stock market and hoped to make short-term gains by purchasing high-priced stocks one day and selling them virtually the next. Investors bought stocks not for what they were worth, but for what they thought they could sell them for. This practice, called speculation, led to rising prices (and finally, to a crash when unprecedented numbers of investors sold their stocks and were later unable to repay the banks which had issued loans to fund the investments; many banks invested all the money that depositors had left there for safekeeping).



Before the crash, officials at the Federal Reserve, the government agency that oversees the nation's banking system, saw that the stock market was out of control. To slow the market, the agency raised interest rates in August 1929. Higher interest rates meant that it cost more to borrow money. With less money at their fingertips, some investors got nervous. They began to buy fewer stocks. With less demand from buyers, stock prices began to fall. As the market turned downward, more people worried. What if they lost all their investments and also had to pay back loans to their brokers? More and more people began to sell, and stock prices fell even further. The market sputtered along through September and October, with stock prices falling a little and then recovering.

On October 24, 1929, the stock market witnessed an incredible drop of 11 percent in value. Financier Richard Whitney attempted to avert the pending crisis by purchasing a large amount of U.S. Steel stocks. His hope was to assuage the fears of other investors and spark them to make stock purchases to prevent future value loss in the market. Whitney's strategy was ultimately unsuccessful, however, as another mini-crash followed days later on October 28, 1929. On this day, the market in fact dropped even more – 13 percent. There was no stopping the oncoming tidal wave as the very next day, Black Tuesday, the economy was pulverized when the stock market crashed and declined another 12 percent in value. Almost instantly, once high-flying stocks were practically worthless. Suddenly billions of dollars had vanished from the U.S. economy. Even millionaires went bankrupt. The Great Depression had officially begun.

ew York Times.

THE WEATHER
Rain today and probably tomorrow; somewhat colder tomorrow.

yright, 1929, by The New York Times Company.

ORK, TUESDAY, OCTOBER 29, 1929. TWO CENTS

STOCK PRICES SLUMP $14,000,000,000 IN NATION-WIDE STAMPEDE TO UNLOAD; BANKERS TO SUPPORT MARKET TODAY

Sixteen Leading Issues Down $2,893,520,108; Tel. & Tel. and Steel Among Heaviest Losers

A shrinkage of $2,893,520,108 in the open market value of the shares of sixteen representative companies resulted from yesterday's sweeping decline on the New York Stock Exchange.

American Telephone and Telegraph was the heaviest loser, $448,905,162 having been lopped off of its total value. United States Steel common, traditional bellwether of the stock market, made its greatest nose-dive in recent years by falling from a high of 202½ to a low of 185. In a feeble last-minute rally it snapped back to 186, at which it closed, showing a net loss of 17½ points. This represented for the 8,131,055 shares of common stock outstanding a total loss in value of $142,293,446.

In the following table are shown the day's net depreciation in the outstanding shares of the sixteen companies referred to:

Issues.	Shares Listed.	Losses in Points.	Depreciation.
American Radiator	10,096,289	10⅜	$104,748,997
American Tel. & Tel.	13,203,093	34	448,905,162

PREMIER ISSUES HARD HIT

Unexpected Torrent of Liquidation Again Rocks Markets.

DAY'S SALES 9,212,800

Nearly 3,000,000 Shares Are Traded In Final Hour—The Tickers Lag 167 Minutes.

EUROPE IS DISTURBED BY AMERICAN ACTION ON OCCUPATION DEBT

London Urges an Explanation of Move for Direct Payments by Germany.

BANK'S PRESTIGE INVOLVED

Britain and Continent Feel That We Do Not Have Faith in Young Plan Institution.

SCHEME IS LAID TO HOOVER

President Is Said to Wish to Avoid Clash in Congress Over Linking of Reparations and War Debts.

Memory Honored Day Fete on Ships

T. E. BURTON, DIES AT 77

On October 29, 1929, when the stock market crashed, investors lost confidence in their stocks and desperately tried to sell them at almost any prices. That day, stockholders "dumped" a record 16,410,030 shares of stock, causing losses of millions of dollars. The day became known as "Black Tuesday", the day the Great Depression started. Initially, the events of Black Tuesday didn't directly affect most Americans individually. In fact, only about 2.5 percent of Americans had stock investments in 1929. But the stock market crash did affect the economy as whole. The crash shook people's confidence in U.S. financial systems. Worried about the economy, people were suddenly afraid to spend money. And when people spent less, businesses suffered.

Banks were some of the biggest losers on Black Tuesday. They had invested their depositors' money, and all of sudden, that money was gone. Some banks went completely broke. Many Americans no longer trusted banks to keep their money safe. In city after city, depositors rushed to withdraw their savings. They hid their money at home – under floorboards and mattresses – for safekeeping. When people pulled their money out, more banks went out of business. The remaining banks didn't have enough money left to invest in new businesses. It was a vicious cycle. With fewer bank loans and less consumer spending, businesses cut back more and more. They made fewer products. They began to lay off workers. Gripped by fear, people became afraid to spend money and invest in new business ventures – and so the downward spiral continued.

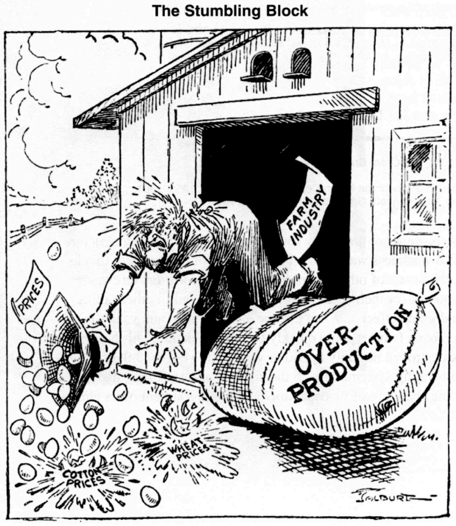
The Crash

Company	High Price Sept. 3, 1929	Low Price Nov. 13, 1929
American Telephone and Telegraph	304	197 1/4
General Electric	396 1/4	168 1/8
General Motors	72 3/4	36
Montgomery Ward	137 7/8	49 1/4
U.S. Steel	261 3/4	150
Woolworth	100 3/8	52 1/4

Source: Frederick Lewis Allen, *Only Yesterday*

Source: *Current History*, from *St. Paul Daily News*, April, 1930.

The Stumbling Block



The Stock Market Crash of 1929 was like an earthquake whose aftershocks violently rocked the nation. Many businesses were forced to close and file for bankruptcy as there were no longer enough patrons to keep them sustainable. Millions of people lost their jobs and struggled to find new ones as businesses continued to shut down in mass numbers. As much as 25% of the population was out of work by 1933. Unemployed and impoverished, many Americans could not afford to pay back loans, not only on speculation purchases but also on the mortgage of their homes and farmland.

Meanwhile, a separate but related economic crisis was sweeping across the agricultural heartland of the United States. Farmers produced an overabundance of crops in the 1920s and did not have enough buyers as people infiltrated the cities. Saddled with produce that they could not sell, farmers experience increasing trouble in meeting their expenses; prices on farm products were unstable, and farm workers were fired. Fewer farm products were traded with foreign countries. "Protective" tariffs, or taxes on imported goods, raised the prices of imported goods by as much as 50 percent. This may have helped American industries temporarily, but Europeans and others soon stopped buying American goods.

The widespread economic failure created a devastating domino effect as American banks consequently failed when borrowers could no longer repay their debts. The sound of the crash was also heard across the Atlantic Ocean as Europe endured its own Great Depression. Throughout the 1930s, the Great Depression impacted people who could not even afford basic necessities, like a gallon of milk or a dozen eggs. Furthermore, even if they could afford these items, they may not have been able to gain access to them, as strict rations were imposed on the population to prevent any one household from having too much.

This was the atmosphere in late 1929. It had entered a dark era – quickly labeled the Great Depression (1929-1942). A feeling of despair seeped through the American psyche. People prepared for the worst.

Sources:
Amazing Century: 1900-1929
"Wall Street Crash of 1919" from Freckle
America in the 1930s