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Causes of the Stock Market Crash of 1929

The “Roaring Twenties” was often known as a time of social reform and celebration. However, it was also known as one of the most chaotic times in our nation’s history – a decade of organized crime, crazy stock investments, and alcohol prohibition. Life in the twenties led to a false encouragement in the strength of the stock market. Some people borrowed or bought shares, which led to more shareholders and a greater investments in stocks. Furthermore, there are important events and circumstances that had a significant impact on the stock market crash, resulting in the depression. Changes in everyday life during the 1920’s assured many Americans of the false pretense that they were living in an age of “unlimited wealth”, allowing them to invest in stocks with credit or borrowed money. Agricultural investments were low; later forcing farmers into bankruptcy. Overproduction was an issue for companies and their stock values. The average consumer-type investor lost money on stocks prompting them to withdraw money from flawed, uninsured banks. These instances and more led up to the stock market crash of 1929 which was the absolute prelude to The Great Depression.

One of the causes of the great depression was the common delusion of the American people at this time: the delusion of constant money and wealth. As consumers bought into the idea of consistent economic growth, investments in the stock market rose, which created an increasing belief in the idea of “Laisse Fair”, or an economic principle where government has little or no involvement. Alongside this, shareholders continued to invest in shares that were not of equal value to their expectations. In October of 1929, prices in the stock market began to decline rapidly. When the stock market crashed, companies and stockholders rushed to withdraw money from banks, but there was so little real money on hand that the banks failed. Money was tied up in loans and investments and not available for customers.

During the 20’s, there were multiple changes occurring in social life and economics. Since before 1929, small farmers could not compete with large farms’ low cost and production to maintain effectiveness in the economy. Many small farmers, therefore, went bankrupt. Due to the technological advancement in the second industrial revolution, supply was at a high, and drove demand for crops and agricultural goods to a low. Therefore, prices fell and farmers’ incomes dropped. Soon after, farmers would go bankrupt, losing their property and business. It was difficult for unemployed farmers to get jobs anywhere else.

In the 1920’s, production of products like automobiles had increased greatly. Demand for buying expensive cars and consumer goods were struggling. Therefore, towards the end of the 1920s many companies were having difficulties selling all their goods. This caused some of the unwanted decreases in profits, putting stock prices even further down. A day before the stock market crashed, one bank holder said, “There is nothing fundamentally wrong with the stock market or with the underlying business and credit structure.” (Tindall and Shi, 842) When the stock market collapsed, hundreds of people rushed to the banks to try and withdraw their savings, knowing that any amount of money could be lost. The banking industry as a whole was collapsing, because there was little regulation and no insurance. This meant that there was no way to be sure that investments would be kept safe.

In conclusion, the stock market crash of 1929 had a major impact on the Great Depression, but not without the help of these factors was the US able to fully realize that its corrupt financial system needed change. Increasing delusions in the economy meant that the average investment in the stock market had speculations of grandeur and little value behind it. Taxation of imported goods and decreased demand for crops put hundreds of farmers in a state of financial distress and poverty. Oversupply and an intense lack of demand pushed the economy overboard, crashing the stock market. The poor structure of the banks proved the citizens’ underlying fears that something was, despite various assurances that everything was running smoothly, wrong. The Stock Market Crash of 1929 had a profound impact on the start of the great depression, therefore if it were not for these events, or perhaps if the economic structure was handled differently, the Great Depression might have not effected the American people like it did.

Bibliography

Shi, David Emory and George Brown Tindall. America A Narrative History. p 842, New York. Norton & Company, Inc. 2013, print.