Black tuesday and the great depression

History

As the American economy is presently dealing with a heavy recession, I deemed it appropriate to choose theGreat Depressionand the Stock Market Crash of 1929 as the topic for my research paper. The GreatDepressionwas a 10 year period of suffering in the United States from 1929 to 1939, also majorly affecting the rest of North America, Europe and other industrialized areas across the globe, caused by many different events and choices. In early 1929, as the New Era neared its calamitous end, America was the richest nation in the world; the richest in all history.

America's 122 million people had more real wealth and real income, both per person and in total, than the people of any other country (Chandler, 1970). General observations of the stock market frequently discussed were of the high stock prices, and speculations were made about what would happen in the late 1920s. Were the stocks generally too high? Or was this a new level for the stock market? October 29, 1929, otherwise known as Black Tuesday, gave a precise answer to these questions with the crash of the New York Stock Exchange (NYSE) and the start of the Great Depression in America, quickly to spread across the globe.

The Great Depression is often said to demonstrate the instability of market economics and the need for government oversight and direction (Smiley, 2002). The stock prices were far too high, which quickly caused the bloated stock market to crash, resulting in dynamic losses for the entire American economy. Stocks had risen to uncommonly high levels which had not been explored before, but occurred regularly throughout the late 1920s. These high prices marked the peak for stocks in September of 1929 just before the market began to drop drastically.

The Times estimated the loss for Black Tuesday at between $8 and $9 billion (Harold Bierman, 1998), with the overall loss at a much higher price than that. In reality, the major causes of the Stock Market Crash were because of actions taken and decisions made during the Roaring Twenties. However, the Great Depression did not occur simply because of one cause. It was a combination of easy credit, unequal distribution of wealth between the classes, the Stock Market Crash, and many more rising tribulations.

The Roaring Twenties were a time of liberal and progressive ideas which included new technologies and goods resulting in an increase of the monetary prosperity within the economy. There was Henry Ford’s development of the moving assembly line, and new industries and inventions in chemicals, aviation, and electronics. By 1929, the United States were producing over 40% of the world’s manufactured goods (Foner, 2008). The automobile was the backbone of the prosperous economic growth.

Henry Ford’s inexpensive Model T, with its ability to be mass produced was very significant, seeing that throughout the 1920s, automobile production tripled from 1. 5 to 4. 8 million. Charles Lindbergh flew the first solo transatlantic flight in 1927, and the nation’s total income rose from $74. 3 billion in 1923 to $89 billion in 1929, along with many other prosperous events (Gusmorino). Even though there were these numerous new expansions that increased the standard of living in the United States, there was a good portion of the economy that remained inpovertyand was not able to prosper like the rest of the country.

Farmers’ incomes continually declined, which forced many banks to foreclose tens of thousands of farms because owners were not able to pay the mortgage. Also, the majority of families had no savings because everything was bought on easy credit, which would drastically hurt them when the stock market collapsed in 1929. Many goods in the 1920s were commonly purchased on credit through a new type of payment plan, otherwise known as “ buy now, pay later. An interesting fact is that while Calvin Coolidge was in the White House, Herbert Hoover had been warning since 1925 against the use of credit in the market. Coolidge, instead of speaking out against stock market speculation, insisted in March 1929 as he left office, that U. S. prosperity was absolutely sound and that stocks were cheap at current prices (White, 1996). It turns out Hoover had been correct, which most likely had an effect on Hoover getting elected as President after Coolidge. The stock market crash did not, by itself, cause the Depression.

There had been signs of economic trouble throughout the decade, with the highly unequal distribution of income and the prolonged depression in farm regions, which resulted in reduced American purchasing power (Foner, 2008). Through the period of imbalance between the earnings and spending of the different classes of families, the only two things the United States could rely on to keep the economy at the same level was credit sales and luxury spending and investment from the wealthy (Gusmorino). The quick collapse of the worldwide economy was dreadful and to most, unpredictable. Around 26, 000 businesses failed in 1930.

Throughout the industrial world, millions of families lost their life savings; depositors immediately withdrewmoneyfrom the banks because they were worried that they could no longer count on the promise to redeem paper money in gold (Foner, 2008). This was true because the global financial system in this time in history was based on the gold standard, and ill-equipped to deal with the downturn. Four-fifths of the Rockefellerfamilyfortune disappeared; General Motors stock fell from $73 to $8 and U. S. Steel stock fell from $262 to $22, while U. S. Steel, who had 225, 000 full-time workers in 1929 had none at the end of 1932 (Foner, 2008).

By 1933, 11, 000 of the United States' 25, 000 banks had failed (Nelson). Unemployment grew to five million people in 1930 and then up to 13 million by 1932. Hundreds of thousands of Americans roamed the country in search offood, shelter, and work; at least 13 million members of the labor force who were able and willing to work were entirely unemployed, and millions more were only partially employed (Chandler, 1970). The future was masked in plain uncertainty. Over the course of the first few years of the Depression, President Herbert Hoover was thought by many Americans that his response to the Depression was uncaring and inadequate.

Nevertheless, the federal government had never faced an economic crisis as severe as the Great Depression, so you can't blame the political leaders for not knowing exactly what to do in that situation. Hoover remained strongly opposed to direct federal intervention in the economy, and constantly made public statements to aim for higher public confidence, but all it did was make him progressively more out of touch with what was really happening in the country (Foner, 2008). Hoover's administration's response was very ineffective, and forced American freedom to be redefined during the 1930s once he left office with Franklin D.

Roosevelt’s election in 1932. Franklin D. Roosevelt came to be beloved as the symbolic representative of ordinary citizens, which was strongly needed in America at that time. I’m sure this was part the reason he was President for three straight terms and was able to lead the United States out of the Great Depression. One of the best things Roosevelt did when entering his Presidency was to include as many intellectuals and social workers in key positions in his administration with decisions about what should be done to deal with the Depression.

He introduced a number of new changes in hopes that it would increase the structure of the American economy by using increased government regulation and massive public-works projects to hopefully promote a recovery (Nelson). Unfortunately, these changes did not help much at all, except for a key move by Roosevelt to take the United States off the gold standard. He also established the Federal Deposit Insurance Corporation (FDIC), which insured the accounts of individual depositors.

By severing the link between the country’s currency and its gold reserves, he made is possible to issue more money in the hope of stimulating business activity; these two measures rescued the financial system and greatly increased the government’s power over it. To show an example of how positive it was, not a single bank failed in the United States in 1936 (Foner, 2008). Franklin Roosevelt’s “ New Deal” was created to help the American public believe that greater regulation would solve many of the country’s problems.

The National Recovery Administration (NRA) was established in 1933 along with the National Industrial Recovery Act, which would work with groups of business leaders to establish industry codes to set standards for output, prices, and working conditions. FDR believed that the idea of liberty should be brought back in order to encourage economic activity and ensure a fair distribution of wealth, and was welcomed immediately. In spite of this, the NRA was declared unconstitutional in 1935, and never produced economic recovery or peace between employers and workers (Nelson).

In March 1933, Congress established the Civilian Conservation Corps (CCC), which set unemployed young men to work on projects such as forest flood control and many other jobs outside in nature and the wildlife. The young men's ages ranged from 18-25; by the time the program ended in 1942, over 3 million young men had participated in the projects where they received government wages of $30 a month (Foner, 2008). In 1935, Congress passed the National Labor Relations Act which gave workers the right to bargain through unions of their choice and gave clear labor practices (Nelson).

A policy that took place during the first three months of Roosevelt's administration, otherwise known as the " Hundred Days," was the Agricultural Adjustment Act (AAA) in 1933. Roosevelt moved to bring agriculture under the federal umbrella, and to have farm subsidies and production controls be protected under the AAA (Scaliger). The AAA made the federal government attempt to raise farm prices by setting production quotas for major crops and by paying farmers to plant less (Foner, 2008).

This was very effective in providing economic relief for farmers; especially since farmers had been having serious problems for years before the Great Depression began in 1929. Even though not all farmers benefited from this act, it was able to raise farm prices and incomes for many, which opened up a way for farmers to begin receiving benefits once again. Unfortunately, the period of unusually dry weather, otherwise known as the Dust Bowl, in the Great Plains caused some serious problems for the AAA, farmers, and rural America.

The Dust Bowl occurred mainly from 1935-1938 in the areas of Oklahoma, Texas, Kansas, and Colorado. The region suffered a very severe drought, the most severe of the century. Wind and dust storms blew most of the soil away, which resulted in crops being destroyed, cars and machinery being ruined, and people and animals dying and being harmed in general. The drought and dust storms displaced more than 1 million farmers and American citizens, in addition to forcing them to leave the Great Plains and head west, or anywhere they could go where these high winds and droughts were not occurring.

Even though the AAA was generally successful, it was deserted in 1936 when it was ruled an unconstitutional exercise of congressional power over local economic activities. The Depression also devastated the American housing industry, but the establishment of the Home Owners Loan Corporation and the Federal Housing Administration (FHA) helped insure millions of long-term mortgages issued by private banks (Foner, 2008). Home ownership now became possible for tens of millions of American families, and more opportunities began to arise.

Roosevelt’s First New Deal came to a halt after having many both successful and non-successful experiments, along with being unable to pull the United States out of the Depression. Afterward in 1935, Franklin D. Roosevelt launched the Second New Deal for the reason that he was stimulated by thefailureof his First New Deal to pull the country out of the Depression. The First New Deal had focused on economic recovery; the weight of the Second was on economic security, where Americans would be protected against unemployment and poverty (Foner, 2008).

In 1935, Congress and Roosevelt attacked the problem of weak demand and economic inequality by levying a highly publicized tax on large fortunes and corporate profits which ended up creating the Rural Electrification Agency (REA). The purpose of the REA was to bring electric power to homes that lacked it, and proved to be one of the Second New Deal’s most successful programs. FDR then approved the establishment of the Works Progress Administration (WPA), which hired countless Americans every year until it ended in 1943.

The attempt was to provide work instead of welfare; buildings, roads, schools, airports, bridges, stadiums, swimmingpools, and sewage treatment plants were built across the United States. On top of all this, Congress created the National Youth Administration in 1935 which was set to provide much needed relief for teenagers and young adults who were unemployed. The centerpiece of the Second New Deal was the Social Security Act of 1935. This act created a system to provide unemployment insurance, old age pensions, and aid to the disabled, the elderly poor, and families with dependent children (Foner, 2008).

Social Security, along with these many other actions taken by Congress during the Second New Deal showed a great deal of promise for the American people in hopes to soon rise out of the Depression. Roosevelt was the also first president to make effective use of the radio to promote his policies. He won a landslide victory against Alfred M. Landon in 1936 to become President for a second term in a row even though some critics believed the expansion of government functions would undermine the liberties of the people.

President Roosevelt insisted to these critics that his measures to increase an economic well-being would strengthen liberty and democracy (Nelson). He reminded the American people on a radio address in 1938 that: Democracy has disappeared in several other great nations, not because the people of those nations disliked democracy, but because they had grown tired of unemployment and insecurity, of seeing their children hungry while they sat helpless in the face of government confusion and government weakness through lack ofleadership....

Finally, in desperation, they chose to sacrifice liberty in the hope of getting something to eat. We in America know that our democratic institutions can be preserved and made to work. But in order to preserve them we need... to prove that the practical operation of democratic government is equal to the task of protecting the security of the people.... The people of America are in agreement in defending their liberties at any cost, and the first line of the defense lies in the protection of economic security. (Nelson)

Toward the end of the 1930s, tension began building between Japan and the United States while the war in Europe had started, and the United States had joined Canada in a Mutual Board of Defense. At this point, the American economy was still in distress, with Roosevelt getting elected once again in 1940. FDR was the president for the third term in a row for the first and only time in U. S. history. During 1941, the United States had become more and more closely allied with those fighting Germany and Japan. FDR declared that, “ America would be the great arsenal of democracy” (Foner, 2008).

Roosevelt froze Japanese assets in the U. S. , which halted virtually all trade between the countries. In retaliation, Japan involved the United States in World War II when Japanese planes bombed the naval base at Pearl Harbor in Hawaii on December 7, 1941. This resulted in the destruction of 19 ships (including five battleships), about 150 planes, and the deaths of more than 2, 300 soldiers, sailors, and civilians. The following day the United States declared war with Japan; three days later Germany and Italy declared war on the United States.

Less than a month later, President Roosevelt announced that the upcoming year would deliver 60, 000 planes, 45, 000 tanks, 20, 000 antiaircraft guns and 18 million deadweight tons of merchant shipping to help fight the war (Nelson). The United States entry into WWII also brought many new jobs and opportunities for Americans, such as working in areas of mass production of weapons and manufacturing, along with joining the United States’ Army, which helped turn the economy around even though the country was at war.

In the long run, freedom, not government, is the best cure for economic crises; the American Great Depression fostered from start to finish by our own federal government, with the help of wily bankers and financiers (Scaliger). A depression occurs when something disrupts the free market system so that resource owners and consumers cannot accurately identify and respond to change. The recovery during the Great Depression shook the faith of many people, took many changes in the role of the federal government, and in more ways than one, created the conditions that led to World War II (Smiley, 2002).

In reality, there is no reason to believe that recessions will not continue to occur in the United States, just like the recession we are currently in as Americans. Luckily, we do have reason to believe that we now have the knowledge, instruments, and national will to prevent recessions from developing into deep and prolonged depressions (Chandler, 1970). The Great Depression of the 1930s was a worldwide phenomenon composed of an infinte number of separate but related events. The Great Depression was a terrible time in America, lasting for more than ten years, and forced millions of people out of jobs, homes and life.

I believeit may have been necessary to have a depression like the Great Depression at some point in history so we know what not to do if the time were unlucky enough to come; but since it did take place, we can today have more high hopes about the future. Some people question today in 2008 if this is a repeat of 1929 or 1930, but we are not even close to the terrific economic turmoil that took place back in the 1930s, and I am thankful for that. Nobody in their right mind should ever desire an event as tragic as the Great Depression to ever transpire again.

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