

Free essay on the crash of 1929 leading to the great depression

[Business](#), [Company](#)



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The Crash of 1929

Stock market crash of 1929 was the result of one of the largest in the history of crazy speculation. Few years, anticipating the year 1924, the U. S. Dow Jones index, estimating shares of industrial companies fluctuated within a relatively narrow price range with strong pressure from sellers at every level reaches 110. At the end of 1924 year stock broke through this level, demonstrating the tremendous rise to 150 in 1925. Rise of the stock index warned about a few good years in the future. Since 1921, when the stock market was very depressed, and by 1928 the volume of industrial production increased by 4% per year, and from 1928 to 1929 it grew by 15%. Inflation has been low, and new industries progressed rapidly.

As Peter Temin wrote, “ The economic contraction that started In 1929 was the worst in history. Historians have compared it with the downturns of the ISAO's and the 1890 's, but the comparisons serve only to show the severity of the later movement. In the nineteenth-century depressions, there were banking panics, deflation, and bankruptcy, in various proportions. But there is no parallel to the massive underutilization of economic resources in the 1930 's”

Increasing optimism combined with easy access to cheap money has stimulated investors. After a temporary reversal in 1926, almost no one month passed without lifting shares and the emergence of new wealthy investors. It is more and more led to an increase brokerage cash loans intended to invest more than you have.

Investment trusts increased in their number, as investments in stocks are becoming increasingly popular. The number of companies, which until 1921 had only 40 increased to 160 by the beginning of 1927 and to 300 by the end of this year. Starting in 1927 and until the fall of 1929 the amount of the balance of investment trusts increased more than tenfold, and self-confidence of these companies has become almost limitless.

The most famous among them was a company Goldman, Sachs & Company, founded the Goldman Sachs Trading Corporation (GSTC) in 1928. Trading Corporation instantly issued shares for \$ 100 million by selling them at face value the parent company. The parent company of public shares resold to 104, retaining profit of \$ 4 million. February 7, 1929, these shares traded at 222. 5. Among the buyers was itself GSTC, March 14, it has acquired its own shares for \$ 57 million, which, of course, supported the price. Investors did not know that something concealed from them.

Crash came immediately. But when Babson predicted a drop of 60-80 points in his famous speech September 5, 1929, the market for the first time reacted to the warning. Dow Jones industrial average fell 10 points on the same day, and soon Babson mentioned approximation " sharp fall in prices." A few days later the buyers are back in the market, supported by positive findings of Professor Irving Fisher of Yale University: " Even at the moment

when high market prices have not yet found their true value." Many newspapers also published positive comments about the stock market to mitigate minor crisis. Exchange magazine Barron 's gone so far as to joke about Babson in its editorial on September 9, calling it " a visionary of Wellesley Hills."

There was no doubt who to blame for the crisis: Babson. However, prices have not reached the previous peak in late September, there was another strong fall, this time driving down prices to the respective peaks of the previous summer. The market started up again, but was unable to reach its previous high and began to haggle much lower than before the fall. October 15 Charles Mitchell, director of the National City Bank, said that the health of stock markets across the country good. Mitchell immediately supported by Professor Fisher, who made the following statement: " I expect to see the stock market is much higher than it is today within a few months."

However, October 21, 1929 Barren's subscribers can read the article by William Peter Hamilton Chartists, in which he warned of the threatening behavior of the index. Indexes broke through their accumulation zone. According to Hamilton, the expected arrival of a " strong bearish signal " from the industrial index, which could penetrate below 325. 7, while the railway index - below 168. 26. On the same day, the industrial index broke through the critical level. Two days later, it was followed by the railway index. Market plummeted with the third highest rate in the history of trade of more than 6 million shares - the collapse began.

October 24 trade reached 12 million shares. People gathered in the streets, and panic was evident. Situation is clearly out of control. Therefore,

President Hoover made the following statement: " The fundamental economy - production and distribution of goods - is on a firm and supportive manner." Hoover's statement had the same reassuring effect which could produce an ad pilot that the engine is on fire. Panic grew, and in the next few days, prices continued to fall, it seemed bottomless pit air. The climax came on October 29, when the waves of forced sales of 16 million shares were sold at a price any way. The story tells of the messenger on the stock exchange, which has managed to offer one dollar per share for the absence of the buyer of the lot - and got what he wanted. Prices are not stabilized until November 13 index has not reached 224. Investors, who risked and bought shares because they fell, made a huge mistake.

Roosevelt tried to heal the crisis of their so-called policy of " new deals" that exacerbated the fall in prices led to large-scale depression. In 1930, prices began to fall again, continuing to move up to its base 58, which was reached July 8, 1932. Industrial stocks lost 85 % of its original market value, while investment certificates Goldman Sachs' can be purchased at the price of slightly less than two dollars.

The Great Depression

On average, in the period from 1921 to 1929 annually goes bust 627 banks had deposits of approximately \$ 169 million, but these were in the bankruptcy order of things, because basically ruined not competitive small banks (average deposits in each of these banks are not housed more than \$ 270 thousand dollars). But in the first three years of depression 4835 bankrupt banks. On deposits they had taken \$ 3, 263, 049, 000. Shares of

bankrupt banks not just dropped to zero. Many banks, losing all the invested assets were responsible for the debts to depositors and shareholders.

Meanwhile, panic-stricken people rushed to withdraw their money from the surviving banks to sew them in mattresses. The amount of money in circulation has risen from \$ 454 million in 1929 to \$ 5, 699 million at the end of 1932. Population hid in egg capsules milliard³ half dollars. President Hoover tried to stop this process.

According to P. Temin writes, " one reason, often and correctly given for the magnitude of the Great Depression, is the absence of a concerted expansionary macroeconomic policy between 1929 and 1933. The monetary and fiscal policies that we now think could have been effective in moderating or eliminating the contraction were not used to any perceptible extent."

In 1931, he urged banks to organize a " National Credit Corporation" - a kind of mutual fund that would help banks experiencing the greatest difficulties.

In 1932, " National Credit Corporation" was transformed into "

Reconstruction Finance Corporation," in which the state has already participated. Corporations have capital of \$3. 5 billion, government loaned money to banks in difficulty. This only helped slow the rate of collapse of the banking system during 1932 ruined daily by 40 banks. Every day turned into dust \$ 2 million placed in bank deposits. By the end of the year in the banking system collapse occurred. February 14, 1933, all banks were closed in Detroit, and in three weeks across the country have been declared bank holiday.

Just a few months after the collapse of the stock market began to take unemployment rampant. By March 1930 lost their jobs more than 4 million

people. A year later, this figure has doubled. According to William Mullins, "With the onset of high rates of unemployment in 1929, local relief work in Los Angeles, San Francisco, Seattle and Portland was organized principally through private charities. Municipal governments responded by accelerating public work programs and by channeling funds through the community chest. As the Depression deepened, direct public relief was forthcoming, but local administrations soon found demand exceeded their fiscal capacity. By 1932, local communities were unable to cope without state or federal assistance". In the spring of 1932 the number of unemployed reached the mark of 12.5 million people (10 % of total population). Peaked at the beginning of 1933, when unemployment in America was 16 million people. Approximately 17 % of the working population of the USA is left without a livelihood. The situation was aggravated by the fact that the Hoover administration was not a federal program to combat unemployment. Hoover believed that the problems of the unemployed, state governments must address and urban municipalities. However, almost all industrial cities have become bankrupt, so left without work, people had to rely on charities and donations from individuals. However, these funds are sorely lacking, and in the third winter depression famine occurred. Only the summer of 1932, Hoover attempted to solve the unemployment problem at the federal level. According to the adopted in 1932 emergency law to combat unemployment " Reconstruction Finance Corporation " was to lend to states to combat unemployment \$300 million, but not " target" the use of money has led to the fact that the payment of unemployment benefits " corporation" to states only But the \$30 million loan of \$90 million was issued Central Republic Bank

and Trust Company of Chicago. By the end of 1932 a federal program to help unemployed fiasco.

The Great Depression changed the social face of America. If workers living "paycheck to paycheck", only deprived of their earnings, the middle class in addition to work and lost all his savings. Average Americans rapidly impoverished, immediately becoming lumpen. By the end of the third year of the Great Depression, the middle class was on the verge of extinction. Yesterday's "white-collar" traded with apples and trays cleaned shoes. People who were unable to pay for housing, amassing shack on the outskirts of cities. Homeless honored for the good to get at least a day in jail for vagrancy, to get shelter and soup. Six thousand jobs in the construction of the USSR claimed 100 thousand Americans. Many of those who got work in a socialist country, going to leave the country forever.

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