

# The progressive movement and causes of the stock market crash



## THE PROGRESSIVE MOVEMENT

The progressive movement which was a period of reform was an era that occurred between the 1890s and 1920s. This movement was as a result of the industrial revolution and was intended to restructure the role American government played in the society thus creating a better society for everyone. The major aims of this movement were to solve the issues created by the corrupt practices in the government, the adverse aftermath of industrialization and urbanization, corrupt practices in business and inequality. Some notable people who pushed for the progressive movement include: Theodore Roosevelt, Woodrow Wilson, Carrie Chapman Catt, Elizabeth Cady Stanton, Susan B. Anthony, Jane Addams, Ida Tarbell and many others.

President Theodore Roosevelt who succeeded President McKinley led the United States into the progressive era. His major objective which was the “Square Deal” on domestic policies was aimed at creating a society that would be more just and equitable (“Theodore Roosevelt (1858-1919”). Regulation was a big thing for him, so making sure that the government had enough regulatory strength was one of his top priorities. With this, he believed the average citizen would be treated fairly and not be exploited. In his quest to strengthen regulatory bodies, he was able to convince the Congress for the need to have laws that would give the Interstate Commerce Commission (ICC) more power and this led to the Hepburn Act of 1906 (Keene 143). This Act “greatly enlarged the ICC’s jurisdiction and forbade railroads to increase rates without its approval” (Link et al.). By 1910, the Mann-Elkins Act was passed. This act further increased the power of the ICC

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by giving it the authority to standardize and control rates in the telegraph and telephone communication industries (Keene 143). He was also very involved in the Meat Inspection Act and Pure Food and Drug Act which were both passed in 1906 ("Theodore Roosevelt (1858-1919)"). These acts were created to maintain a high-quality standard in drugs and consumables production. Due to his love for the environment, he also supported the Newlands Reclamation Act of 1902. This Act helped in the creation dams by the federal government which served as irrigation systems for small farmers.

Another notable person in the progressive era is President Woodrow.

President Woodrow Wilson's first reform during the progressive era was on tariff. His intention was to spread economic opportunity to people at the lower-class and also to put an end to privileges reserved for only the upper-class citizens. He was able to convince Congress that "higher tariffs created monopolies and hurt consumers" (Ambar). This led to the passage of the Underwood-Simmons Act of 1913. He supported the idea that reducing tariff would make foreign businesses market their goods at lower prices in America thus giving small-scale businesses a fair chance to survive in the open market (Keene 144). The Federal Reserve Act of 1913 was also a result of President Wilson's persistence. This Act was created to establish a federal system that was powerful enough to regulate credit facilities. This federal reserve acted as a "banker's bank" by having in its possession some percentage of bank finances in order to "help member banks in time of crises" (Keene 145). In 1914 under president Wilson's reforms, the Clayton Anti-Trust Act was also passed which controlled unfair business practices.

The women's suffrage movement was one of the major movements during the progressive era. This movement was aimed at giving women the right to vote and also aimed at "empowering female workers by organizing unions to improve wages and working conditions" (Keene 139). So many women's suffrage groups were created in order to foster this movement. One of the groups was the National Woman Suffrage Association (NWSA) which was created by Susan Anthony and Elizabeth Stanton. The main objective of this association was to push for the right of women to vote. The NWSA was able to attain a reasonable level of success between 1910 and 1917 as women won "the right to vote in Washington, California, Arizona, Kansas, Oregon and New York" (Keene 140). Another association was the American Woman Suffrage Association (AWSA) established by Lucy Stone and Julia Ward Howe. These two associations later merged up as the leaders believed that their unity would be more effective for the suffrage movement. Their merge created the National American Woman Suffrage Association (NAWSA) and was the largest women's suffrage association in the nation ("women's suffrage"). The National Woman's Party (NWP) was also formed by Alice Paul. The objective of this party was to achieve women's suffrage on a national level by winning an amendment to the United States constitution ("women's suffrage"). After series of protests by the women and arrests, President Woodrow Wilson in September 1918 endorsed the women's suffrage and Congress adopted the 19<sup>th</sup> amendment which was ratified in 1920 ("women's suffrage").

The progressive movement was an era that brought about so many positive transformations in response to the industrial revolution. These

transformations include economic reforms, social reforms (e. g., women suffrage, welfare reforms). So many arrests (e. g. in the women suffrage protests) and lawsuits were filed in order to achieve these reforms.

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### WHY THE STOCK MARKET CRASHED.

The stock market crash of 1929 which is also referred to as the Wall Street Crash or the Great Crash occurred due to the unsustainable rapid growth in the prices of shares in the years before the crash. This crash resulted into a big financial loss for the United States economy as the drop in the value of the United States stock market was very sharp and it took many years before America could recover from the adverse effects of the crash

(Pettinger). It was also a major contributing factor to the Great Depression that followed.

Buying shares on the margin and easy access to credit facilities or loans to buy shares was a contributing factor to the stock market crash. This type of share purchase by margin entailed the buying of shares by paying just 10% or 20% of the value of the share thus borrowing the remaining 80% to 90% of the share value (Pettinger). This type of share purchase increased share value by allowing surplus money to be invested into shares. Numerous investors invested in millions as they needed to pay just 10% of the share value to purchase the share. Investors who bought shares by this means intended to pay up their loans by reselling the shares they bought at higher prices (Keene 271). When the prices of the stock market began to fall, most of these investors were affected and were unable to clear their debts and it in turn affected financial institutions from which they had gotten loans from (Keene 271).

Over confidence which resulted in investors and banks using every money that they had access to or in their possession to invest in the stock market was also a big cause of the crash. Banks used money from the average Americans' savings accounts to provide funding for investments in the stock market. Even though just about 10% of Americans owned stocks, when the stock market crashed it affected so many people because their savings in the bank were used to fund stock market investments (Keene 271).

Another important factor that contributed to the stock market crash was the consequence of easy and excessive access to credit facilities or loans. This

easy access of loans allowed investors to pump in so much money into the stock market to the extent that share prices were easily inflated. This rapid inflation of share prices resulted into an unproportioned relation between the prices of stocks and the true worth of the organization (Keene 271). This simply implies that there was a mismatch in terms of the true value of a company and the prices of their shares.

The Federal Reserve questionable policy played a part in the 1929 stock market crash ("The Stock Market Crash of 1929"). The policy by the Federal Reserve to increase the interest rates in August 1929 triggered a downshift in the United States economic activities. This downshift was because the interest rates on broker loans were too high and as such investors found it discouraging to invest. Broker loans from banks and other organizations which financed brokers were tremendously reduced.

The uneven distribution of wealth/income in the American society was another factor that caused the stock market crash of 1929. For a market to be strong, buyers of today must end up becoming sellers of tomorrow and as such the market will always have a continuous inflow of new buyers, but this was not the case in the years prior to the crash ("The Stock Market Crash of 1929"). A majority (about 80%) of the American family made up the population of people without savings and a very few minority (about 0.5% to 1%) of the population controlled more than one-third of the nation's finances. With this pattern of wealth distribution, the market did not have new sets of buyers entering into the system and as such the sellers did not have enough market for their stock ("The Stock Market Crash of 1929").

Over production was on the rise as the few wealthy population could only  
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purchase what they needed from farmers leaving the remaining to the majority (who were poor) that could not afford to purchase the remaining goods thus drying up the market. Production rate was higher than the rate of consumption.

The negative effect of panic that crept into the American public also contributed to the stock market crash. The American public was too self-assured that prosperity which they enjoyed would never come to an end and for the most part of the 1920s their confidence kept on increasing as the level of economic prosperity kept on spiking up. When the panic set in, people were worried and confused as they never imagined or expected any form of financial drop. In response to the panic, people started selling their stocks and the market kept on dropping. “ This was partly due to Americans’ inability to weather market volatility given the limited cash surpluses they had on hand” and also because of their assumption that the economy might not recover from its downshift (“ The Stock Market Crash of 1929”).

The depression was finally ended during the presidency of Franklin D. Roosevelt. His plan was to establish programs backed up by the federal Government in order to end the Great Depression. The New Deal, which was a series of programs and laws aimed at boosting economic recovery, reforming private enterprise and providing security to lower class Americans was a step Roosevelt took in order to achieve this (Keene 276). He restructured the banking institution and other financial organizations and also created the Securities and Exchange Commissions (SEC). The SEC controlled the act of purchasing stocks on margin. The home mortgage lending process was also reformed as many homeowners due to <https://assignbuster.com/the-progressive-movement-and-causes-of-the-stock-market-crash/>



foreclosures, were on the edge of losing their houses (Keene 280). This he did by ensuring the extension of mortgage payments from 5 years to 20 years. Roosevelt's New Deal also established programs that helped put a lot of people back to work. These programs were able to create about " 15 million jobs during the Depression" (Keene 282). All these reforms which were initiated by president Franklin D. Roosevelt helped pull the country out of the Great Depression.

The stock market crash which started in late October 1929 was caused by several factors. The major factors include the: Federal Reserve policy which increased the interest rate, investment of other people's money in the stock market, uneven distribution of wealth in societies, panic by the American public which spread like a wild fire, easy access to credit facilities and loans which were used to purchase shares and purchase of shares on the margin. It is important to note that the stock market crash of 1929 was not the sole cause of the great depression which began October 1929 as there were other contributing factors. World War 2 which marked the end of the great depression was not the main reason behind the end of the great depression, but the New Deal which brought a lot of reforms ended the depression.

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