The wall street crash and the great depression

The Wall Street Crash of 1929 and the aftermath which caused the “ Great Depression” have a lot in common with the present recession. The same causes, same effects and same approach in handling the situation. The Wall Street was the initial cause for triggering Great Depression and it is the initial cause for this recession as well. The Federal Reserve System was the one who intervene in the markets to create booms and which turned into the Great Depression according to the Austrian theory of the trade cycle who believes that markets are better off on their own without any intervention.

INTRODUCTION

The Wall Street Crash of 1929 which was followed by the Great Depression was the most important event of the twentieth century financial history. The Great Depression brought misery to the lives of Americans by widespread unemployment, near halts in construction and industrial productions and stocks lost almost 89 percent of its value.

The stock market crashed On October 24, 1929 and is referred to as “ Black Thursday” and then got worse on October 29, 1929 when people lost their life savings. That day is called the “ Black Tuesday” when markets fell by around 23 percent. The market lost $14 Billion dollars on that day which brought the total to $30 billion for that week alone. Ten times more than the entire annual budget of the federal government and far more than the United States had spent during all of World War 1. The crash was the beginning of the Great Depression.

The 29 stock exchanges in 1929 had 1548707 customers and out of 120 million Populations nearly 30 million families had an active association with the market. Two third of the trading was on margin meaning the money they did not have.

Stocks were valued at ten times earnings and some stocks were trading at 50 times earnings. By July 8, 1932, New York Times industrials had fallen from 224 to 58. US steel from a strong 262 to only 22 points, General Motors have fallen from 73 to 8 points. Construction also fell from 8. 7 billion dollars in 1929 to 1. 4 billion in 1933.[1]

THE GREAT DEPRESSION

At the beginning of the year 1929 economic activity was still thriving but by the end of 1929 American stock market bubble burst and the world was about to witness the greatest depression of all, which will change the dreams that people had for their future into a nightmare. The Dramatic fall of share prices on October 29, 1929 in the New York Stock Exchange caused thousands of businesses to collapse.

The peak boom years 1928-29 Americans started to deal in shares. This was the easy way to make money and it looked almost certain that there is no loss in doing so except profit, while they gambled on these stocks (shares). The prices of stocks were going up and up and stock exchanges were the best place to invest your life savings and people mortgaged their homes and businesses to invest in stocks. It was all about stock, everyone was trading stocks and everyone was playing markets.

This huge demand in stocks over valued most of the companies. American industries started to produce more than the actual demand. A few economists at the time predicted that prices might fall but investors were making money and there was very little reason to believe it would happen and then the unthinkable started to happen. It was September 1929 when the first wave of this hysteria hit the stock exchange and every investor started to sell, of course no one wanted to buy. Prices started to tumble and investors wanted a way out and in matter of days billions and billions of dollars vanished taking everything in its way.

FACTORS OF GREAT DEPRESSION

WALL STREET

The Bull Market crash of 1929 was one of the contributing factors in triggering the Great Depression, which would last for eleven years before any sign of recovery. The total loss to stake holders by the end of this was figured at 40 billion dollars.

BANKING SYSTEM

Most economists would put the stock market crash as a sideshow the real mess was made by Banks with ridiculous loans. The US economy was heavily bank based in the 1930s. Most of the American population lost their jobs and could not afford to pay back the loans that they took in the boom years for mortgages and buying stocks. The result some 9000 banks filed for bankruptcy during 1930's. When the banks failed so did every account holder deposits in that bank.

The remaining banks had problem in holding on to the deposits and most of their customers withdrew their savings leaving the banks empty. The banks stopped creating new loans to businesses and individuals and so there was less money to spend and which caused the remaining businesses to fail.

PURCHASING POWER

The spending power and the confidence of the American public were lost because of the bull market failure. This led to inventories to pile up and so the production was reduced because of less demand in the market, end result employees of these factories and businesses were laid off. Unemployment reached to 25 percent, lowering spending power of individuals.

HAWLEY SMOOT TARIFF

In order to save American industries the US government raised import tariffs on above 20000 imported goods. This was called the " Tariff Act of 1930" or " Hawley- smooth tariff" which was brought into law on June 17, 1930. After implementing this law the American imports and exports were reduced by more than half and it contributed to the severity of the Great Depression.[2]

CURRENT CRISIS AND THE GREAT DEPRESSION

The current recession in many ways is similar to the great Depression of 1929. These two follow the same pattern prior booms followed by recession. They both originated from America and now worldwide nations are facing its long term effects.

WALL STREET

When the Wall Street lost $300 billion on 14 March, 2008, some of the economist warned that we might be looking at another era of Depression. The Wall Street crashed on September 29, 2008, Dow Jones was down by 778 points an average of 54 percent compared to 89. 2 percent in 1929. This was the biggest loss on Wall Street since 1929. The loss was estimated at around 1. 2 trillion Dollars.

BANKING SYSTEM

The banking stability was shaken with the recent crisis and America was facing a banking disaster. It was reported that the initial loss in March 2008 was about $100 billion and which stands at around 245 billion US Dollars in 2011.

UNEMPLOYMENT

Unemployment stood at 25 percent in the Great Depression and now it stands at 8. 8 percent in US. The prices were reduced and the wages were increased so people could afford and spend but in recent times the prices have gone up and the wages are reduced.

U. S. FEDERAL RESERVE SYSTEM (FED)

President Obama signed " The American Recovery and Reinvestment Act of 2009(Recovery Act)" into law in an effort to jump start the economy, in order to create and save jobs. This Act was the biggest since the Great Depression.

The fed increased the money supply by 17 percent in 1929 and in recent recession by 125 percent. The treasury Department have put forward proposed legislation to control in excessive risk on Wall Street and preserve economic opportunity on Main Street. On July 15, 2010, Congress passed a reform legislation that will end “ too big to fail” by bailouts. Provide tools to the regulators to identity reckless lending and taking risk to avoid future recessions. They also created a Consumer financial protection bureau (CFPB) to create a transparent derivatives market through detailed reforms.[3]

GROSS DOMESTIC PRODUCT (GDP)

The Gross Domestic Product (GDP) was dropped by almost 30 percent and in the fourth quarter of 2010 it was 3. 1 percent.

MANUFACTURING PRODUCTION

Both the great depression and current recession were affected by a huge decline in manufacturing production. Production of durable goods was declined by nearly 80 percent. The Obama administration has bailed out auto companies and that lowering taxes are not enough for rescue according for the Federal Reserve.

THE HOUSING BUBBLE

The reason for the housing bubble was reckless banking, issuing loans to everyone for mortgages and the demand increased. The prices went up in the boom years and everyone was making fortunes by buying and selling them off. We could blame the Fed for flooding the markets. In great depression it was the fed as well and the housing bubble at the time was big as well, the Americans dream everyone with their own home.