

# The economic situation in the 1920's

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There is a saying that “ all good things come to an end”, these ideas could not be more accurate when describing the economic situation in the 1920's. A once booming economy, ended with a drastic and life altering market crash. There are several theories or rationales provided both in lecture and through internet sources as well. Many of the economic tactics of governments and others alike can to some degree explain these crashes. Cuts, easy credit, protective tariffs and law regulation are some of the practices that indefinitely led to these economic declines. Although, some may disagree, there are many facts that show the truth behind these assertions.

In my opinion, these policies were beneficial to the minority and oppressing to the majority of the country. Which is similar to modern day times might I add. These tactics directly harmed the state of the economy, without such practices, the economy, more than likely would not have faced such issues. Despite this terrible occurrence, many educational discoveries surfaced. Both in regard to history and economic implications alike. By analyzing such events, not only can a society know which steps to not take in the future, but also how factors effecting the economy are dynamic and complex. However, necessary nonetheless.

Although, several documents claim that these tax reductions essentially boosted the economic growth, they inevitably also led to the stock-market crash as well. There were two specific accounts of these rates being reduced during the span of the 20's. First viewed in the Revenue Act of 1924, and later in the Revenue Act of 1926. One may question how a market can crash given that the public were in much better standings financially compared to <https://assignbuster.com/the-economic-situation-in-the-1920s/>

previous years. The answer to such questions is simple, this new-found wealth had to be spent somewhere, right? Increased amounts of efforts and focus were projected into the stock-markets during these times. Prosperity was perceived in these investments, however, that was certainly not the case, when it crashed in 1929 (NBBooks, 2017). Logically, thinking about such ideas, it is very possible that this crash was planned. Many companies could benefit from such conclusions, not to mention, that these reductions obviously left people with more money in their pockets. This certainly would be a wonderful opportunity for corporations to earn even more money. Although, these ideas may only be that of conspiracy theorists, it is certainly something that all audiences should consider when analyzing such instances.

Another major influence that led to such market crashes would be the availability of credit. Credit was extremely easy to obtain during these times, almost too easy. Installment plans were commonly popularized during these times. It allowed people to afford things they could not outright pay for at that time of purchase. This opened markets and purchasing capabilities for the public. However, in most cases, people were unable to pay back these debts. These ideas can help explain how the market crashed as well.

Firms were not receiving payments for these credit purchases, which would inevitably harm them financially. Prices of stocks would be reduced from these instances as well. Black Friday was partially caused by these easy credit allowances, along with other forces alike that led to such declines. This partly explains why there are such detailed and lengthy requirements and processes for lines of credit in today's times. Credit needs to be individualistically accessed and dependent on several factors, if these

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conditions are not met, similar issues as the ones described above will result indefinitely.

According to New Deal Democrat (2008): “ But the outcome of this easy credit was a spectacular increase in consumer indebtedness, together with an equally dramatic decline in consumer savings — both situations totally familiar to us today. As set forth in the Statistical Portrait of the 1920s there was an explosion of consumer debt” (New Deal Democrat, p. 1, 2008).

Typically, consumers were spending threefold their reported income during such instances, this crash was inevitable to society given these conditions. Clearly, we can see how dangerous these easy credit allowances are for individuals and the economy alike. Once one is in debt, it is very difficult to get out of, this is due to the heavy interest rates that follow (New Deal Democrat, 2008).

Another practice that can be of blame for this economic downfall would be the protective tariffs that were enacted during these times. Although, in most cases, Wikipedia is not a credible source for utilization. I feel that they most accurately explained such causes and effects of these situations.

Wikipedia (2017) stated that : “ The Emergency Tariff increased rates on wheat, sugar, meat, wool and other agricultural products (see all in List of taxed items) brought into the United States from foreign nations, which provided protection for domestic producers of those items. Farm state representatives saw the tariff as only the first step in a campaign for permanent protection and more government aid.[3] Although the tariff was enacted in order to protect American products and attempt to diffuse the post-war recession, this type of protectionist legislation ultimately created an

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imbalance in international commerce by heightening economic nationalism". (Wikipedia, p. 1, 2017).

We can see a clearer picture from these utilized quote listings above, as to how the markets crashed later. American's foreign trade ties were increasingly diminishing. This allocated for inflation on such products, resulting in an economic decline for the United States. Not to mention, that most people were now purchasing products made in their homeland. If we go over the claim I made above, we can see how these situations also benefited American based firms. It sheds light into the ideas that these instances were not coincidental, rather planned. Although this is a simple theory I have concluded, when one really thinks about it, these instances make sense.

Lax regulations were also partly to blame for these situations. During these times, the United States was changing significantly. Both in regulations and the people in general. These times were very familiar with new technologies and advances alike. With these changing times, along came less strict regulations in the country. These lax regulations were manifested in many forms. We could see how easy credit was given to people in the above examples, this is one way in which lax regulations were used during such times. It appeared that democrats and republican parties did whatever they pleased during these times. Many people began to lose trust in their governments as well. The previous norms in markets were completely altered and changed to be less strict during these times. This harmed the market essentially, due to the degree of inconsistencies.

Although these four practices help explain, to some degree, why the economy fell, there are certainly other reasons that led to these instances as well. The agricultural recession was also in parts to blame for these occurrences. Many farmers, and other similar positions were unable to keep up with the new economic climate. New technologies that were more efficient created higher supplies, however, the demands for food did not shadow the quantity supplied. Prices of products thus fell, and farmers incomes followed suit. It was very difficult for these people to find other jobs in the economy. Many people were seeking out employment, however, many were unsuccessful (Pettinger, 2017).

As we can conclude, many of these practices were at fault when deciding why these markets crashed. If such policies would have been thought-out better, these instances may not have occurred. There are several factors that lead to such instances, however, only five were touched upon throughout this essay. These events, however, were necessary for growth and understandings of the complexities involved in economics. It's crazy to think how one change can bring upon many disturbances in the future.