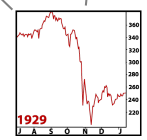
BHS HISTORY

WALL STREET CRASH 1929



BACKGROUND

WALL STREET is America's financial centre and home of the New York Stock Exchange

In the 1920's major companies offered SHARES in their companies.

In return for investment in these shares the company would return a regular annual DIVIDEND- a share in the profits.

The company will use those money to reinvest in the company, boosting efficiency, productivity and profits.

SPECULATORS are a different type of investor. They are in for the quick profit. They choose to buy shares in companies that they feel will increase quickly in value. They buy and sell their shares relatively quickly looking to gain.

The 1920's witnessed the value of the American stock market boom as confidence and profits caused people to invest in huge numbers. Up to 10 million Americans invested. The market quintupled in value – up 500%

It was a BULL MARKET that seemed to have no end.... until 1929.

CAUSES

CAUSE 1

OVER SPECULATION

Millions of Americans became speculators getting involved for the quick profit and not the long term investment. This greed had the effect of pushing up share prices but to such an extent that they overvalued the market. Speculators seemed to think the bull market would never end as it had gone on for so long. However, American companies were being valued at prices which were unrealistic to their real market value. Their profits were not meeting this expectation. This over valuation often leads to what the market calls a 'correction' This can cause shares in these companies to fall significantly causing millions to lose money.

Up to 600,000 people were speculating by 1929

CAUSE 2

CREDIT- Buying on the margin

What encouraged speculators was the fact that the banks were prepared to lend as much as 90% of the share value to buy the shares (buying on the margin) This made it seem like the banks did not even think the market would go down significantly

The easy credit in the USA undoubtedly pushed up share values. Banks lent money recklessly. Americans borrowed $9 billion for speculating in 1929 alone. These speculators obviously hoped to pay back these loans with their 'profits' but what if the profits didn't materialise?

CAUSE 3

CORRUPTION

The American stock market was famously unregulated

This led to corruption and 'insider trading' This means that people find out secret company information and therefore find out which shares will go up or down. This is manipulation of the market and is illegal but little is done. In fact politicians and businesses are deeply involved.

Some businesses didn't even exist and were frauds.

CAUSE 4

LACK OF GOVERNMENT REGULATION

The famous Republican slogans throughout the 1920's suggested the government which governs best governs least and encouraged rugged individualism. There was the steadfast belief in LAISSEZ FAIRE- not getting involved!

This seemed to have worked until 1929 when the scale of the problems began to emerge.

Allowing speculators to overspeculate and allowing banks to be so reckless with people's savings caused the stock market to overheat and crash 💥 causing the deepest depression in American history.

CAUSE 5

WARNINGS IGNORED

THROUGHOUT 1929 there had been many very well informed people warning that the market was 'overheating' Even before this in 1928, economists warned about the inevitability of a fall at some stage.

These people received the strongest criticism. Some received death threats. Some were made fun off in the press for being pessimists and for damaging confidence in the market.

EVENTS

1929

MARCH 1929

Share values fell sharply as investors panic. This is months before the real crash.

In response, Charles Mitchell, President of Citibank, (nicknamed Sunshine Charlie- due to his optimism) offered $25 million more to speculators to buy shares. This added confidence back to the market but also fuelled the over confidence sending shares even higher!

SEPTEMBER 1929

Shares began to fall again. Warnings began to increase and confidence began to slide. Prices began to fall rapidly as people began to sell faster, trying to retain their money.

BLACK THURSDAY (24th October 1929) 💀

Shares nosedived in value. Almost 13 million were sold in one day

No one wanted to buy and so the prices crashed even further

Friday 25th OCTOBER 1929

A group of top bankers met and decided to invest $250 million to restore confidence in the market

Monday 28th October 1929 💀

Despite the injection on money, values continued to fall. 9 million shares were sold at falling value

Tuesday 29th October 1929

Panic set in. Shareholders tried to sell their shares for whatever they could get. Over 6 million shares were sold

November 1929

Shares continued to fall and the stock market would continue to lose value well into the 1930's returning to levels of 10 years before.. right before the economic boom.

EFFECTS

IMMEDIATE

IMMEDIATE

Speculators were ruined by the crash: $8 billion was lost in only one day.

However, they only accounted for 600,000 people. Only 15% of Americans were share owners so the effect should have been limited.

The crash however, unleashed an economic RIPPLE EFFECT which began to seriously damage first the American economy and then the worldwide economy.

Banking system

BANKING SYSTEM

The banking system was hopelessly overexposed to the Wall Street crash.

It had lent their savers money recklessly to fund the speculation. Buying on margin schemes meant that this money could not be recovered. The vast amount of credit lent by banks throughout the 1920's now needed paid back.... but people had now lost their investments in many cases, their houses had fallen in value and unemployment was rising rapidly as businesses began to close. This was the perfect storm

Over 5,000 banks went bankrupt from 1929-1933!

Even the huge BANK OF THE UNITED STATES went bust in 1933 losing 400,000 people their savings.

Many rural banks especially went bust causing even more hardship on rural communities and farmers.

Economic problems

ECONOMY

People began to spend their money only on essentials. This deeply affected the American economy as people stopped spending on consumer goods or big ticket items such as cars.

Sales of new cars dropped 75%! Remember how much the US economy was dependent on these huge industries?

This led to the big American car companies making huge losses for the first time. They were also forced to make thousands of people redundant.

Durable goods (steel and iron) also suffered a huge decline. construction contracted by 90%!

Retail sales (shopping) fell by 50% as people reduced their spending dramatically.

Cycle of depression

CYCLE OF DEPRESSION

Just as the cycle of prosperity increased prosperity due to increased demand and self generating wealth.. so this could be reversed to a cycle of depression

Lack of sales ... leads to falling production and unemployment.. some firms close.. some lay off staff.. the amount of money to spend is greatly reduced.. people spend less.. reduced demand for consumer goods.

Poor Government response

POOR GOVERNMENT RESPONSE

The Wall Street crash exposed all that was wrong with American economic policy throughout the 1920's

Rugged individualism and Laissez faire had not worked and in fact were creating the problems.

1) RESTRICTED INTERVENTION- The lack of government intervention had created the crisis and indeed made it worse

2) INTEREST RATES- The US FEDERAL RESERVE made the decision to RAISE INTEREST RATES. This stopped borrowing making it very difficult for US businesses to survive at a time when they needed to borrow money more than ever.

3) GOLD STANDARD- The government kept the American dollar tied to the GOLD STANDARD. This was maintained for prestige but in fact it reduced the amount of money in people's pockets, stopped spending and therefore heightened the depression.

4) INCREASED TARIFFS – HAWLEY SMOOT ACT

This 1930 law increased import tariffs hugely in an apparent effort to protect American industry. It had the effect of making 60 other countries raise their tariffs on American goods, crippling export sales.

WORLDWIDE CONSEQUENCES

It is said 'When America sneezes everyone catches the cold' and this could be said for the Wall Street crash.. the ripple effect went global.

American loans were recalled in Germany causing their economy to collapse with 5 banks going bust and 6 million becoming unemployed- leading to Hitler

Bankruptcies occurred across Europe and elsewhere and worldwide trade slumped by as much as 40% further deepening the depression and making it harder for the USA to re-emerge from it

LOSS OF CONFIDENCE

Americans had clearly learnt a very rough lesson about being overconfident and this severely damaged confidence.

However, this was to the extent where they were too over-cautious to buy themselves out of the depression. It took years to build up the degree of confidence to rebuild the American economy.

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