Knowledge Organiser : The Development of the USA (Unit 2)

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Key Question 5 : What factors led to the end of prosperity in 1929?

Timeline of events

1925	Value of stock market was $27 billion
1926	House prices began to fall
1929	Value of stock market was $87 billion
Sept 1929	Financial experts warned the economy was slowing down
24th Oct 1929	Black Thursday – 12.8m shares sold
29th Oct 1920	16m shares sold at very low prices
End of 1929	2.5m Americans out of work

Important concept

Just as the boom was caused by a number of factors combining, so too was the crash, with some of causes of the boom ended up leading to the crash, over production of goods and rising stock markets being an example. The long term causes were always there, yet only when people began to realise the precarious nature of the economy did the market crash at the end of the peirod. And what a crash it was!

Key words

Black Thursday	24 October 1929 - the start of the Wall Street Crash, a 'black' day economically.
Consumer Goods	goods that are used as an end in themselves and not for the production of other goods, e.g. vacuum cleaner, fridge and radio
Great Depression	a prolonged economic downturn, beginning after the Wall Street Crash, that affected the whole world
On the margin	people borrowing money in order to be able to buy shares
Shares	financial stakes in a company or business
The stock market	a centre where shares are bought and sold
Wall Street crash	the economic downturn on the American stock market in 1929

How did this prosperity affect American society?

- A number of financial experts warned that the American economy was slowing down and in September 1929 some investors started selling **shares** in large numbers. Many people started feeling nervous and investors went into panic and rushed to sell their shares.
- On 24 October 1929, now referred to as **Black Thursday**, 12.8 million shares were sold. Thousands of people saw their fortune, or any money they had in the bank, disappear. On 29 October 1929, 16 million shares were sold at very low prices. **The Stock Market** in New York had collapsed.
- **The Roaring Twenties** came to a sudden end. Investors lost their money in the Crash and could not pay their debts. Many banks closed, ordinary people lost their savings and people lost all hope for the future.
- People could no longer buy consumer goods like cars and clothes. As a result, workers were made redundant, other workers' wages were cut and unemployment rose to very high levels. By the end of 1929, 2.5 million Americans were out of work.
- This was the start of the **Great Depression** of the 1930s.

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Long and short term causes

Longer term causes

- **Overproduction in agriculture** - as farming techniques improved and demand from Europe dropped, farmers were producing too much food. This caused a fall in prices, and drop in profits, so thousands of farmers had to sell their farms.
- **Overproduction in industry/falling demand for goods** - by the end of the 1920s there were too many **consumer goods** unsold in the USA. Not everyone in America was rich. Those that could afford to buy cars, refrigerators etc had already bought one, but approximately 60 per cent of Americans could not. The supply was bigger than the demand.
- **Buying on credit** - some of the country's poorer people bought goods on credit and as a result, a great deal of them owed money to shops and large companies. Many of these companies subsequently went into financial difficulties as the poor failed to pay their debts.
- **Commerce** - by the end of the 1920s, America tried to sell its surplus goods to European countries. But, in response to the **Fordney-McCumber Tariff Act**, European countries had imposed a tax on American goods. So American goods were too expensive to buy in Europe and, as a result, there wasn't much trade between America and European countries.
- **Property prices** - house prices increased a great deal in the early 1920s. But after 1926, house prices fell leaving a number of Americans owning houses that were worth less money than what they had paid (and borrowed from the bank) for it. This is called negative equity.
- **Too many small banks** - due to **laissez-faire** policies banks were not tightly regulated meaning there were only a few rules to follow to run a bank. There were many small banks that did not have the financial resources to cope with the rush for money when the **Wall Street Crash** happened. A number of banks had to close leaving thousands of customers with no money and no confidence in the banking system.

Short term reasons

- **The Stock Market** - throughout the 1920s the prices of shares had increased to unrealistic levels. People continued to buy shares as they were making huge profits from them. By 1929 over 20 million people had invested in shares. The value of the stock market had more than tripled from $27 billion in 1925 to $87 billion in 1929.
- **Over speculation** - as it was easy to borrow money, many people would buy shares **on the margin** - which meant borrowing money to buy shares and then holding on to them until they were worth more than the debt. Approximately 75 per cent of the purchase price of shares was borrowed in 1929. Then they would sell the shares, pay off the original debt and make a profit.
- **Loss of confidence and a sudden fall in prices** - the Wall Street Crash.