Panic-stricken investors on Wall Street after the stock market crash of 29 October 1929. Between 29 October and 13 November (when stock prices hit their lowest point), over US$30 billion disappeared from the US economy. The greatest financial crisis in US history, the collapse of the stock market ended a period of prosperity and ushered in the Great Depression.

(Image © Getty Images)

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Wall Street Crash, 1929

Summary Article: Great Depression: Causes
From The Hutchinson Unabridged Encyclopedia with Atlas and Weather Guide

Introduction The Wall Street crash of 29 Oct 1929 and the Great Depression that followed were such a shock to most Americans that some early attempts to explain their causes blamed sunspot activity or medieval prophecy. A few held it to be divine retribution on a people who had indulged themselves in a decade of hedonism after World War I and were due for a sobering experience. Others recognized that the 1920s had brought hints of an agricultural recession, amid uninhibited business speculation.

No philosophical consensus The efforts of economic historians to understand and explain the causes of the Great Depression of the 1930s have been characterized by a degree of ‘theological’ controversy. This divides adherents of the various economic philosophies, communist and capitalist, monetarist from Keynesian and others. Their lack of consensus in explaining the Great Depression stems from these distinctive philosophical starting points.

The price of ‘get rich quick’ In summary, the Wall Street crash was caused by excessive speculation in the stock market during the late 1920s. This was a symptom of the feverish ‘get rich quick’ mentality that had accompanied almost a decade of growth following post-war reconversion. Then the over-
valued commodity markets suddenly lost confidence, and prices tumbled. This set in motion a sequence of disasters that became an economic catastrophe for the richest nation in the world. Banks collapsed, businesses went bankrupt, unemployment soared, welfare organizations could not cope with the rising tide of destitution and politicians seemed powerless to break the vicious downward spiral of American industrial capitalism.

The president's view  The president at the time of the crash, Herbert Hoover, blamed the calamity in part on international factors. He argued that world trade had deteriorated in the late 1920s because European states had not recovered from the effects of World War I, stating ‘the European disease had contaminated the United States’.

Under-consumption  However, there were other causes closer to home. It went unrecognized that the distribution of national income was not only inequitable but was failing to generate sufficient demand at the broadest level of society to meet the rising levels of supply made possibly by new production technologies. Thus under-consumption was both a cause and a symptom of the Great Depression.

Why it spread across the world  The Wall Street crash need not have led to the severest depression in American history, and a consequent worldwide slump. To understand why a loss of confidence in the New York stock market had such devastating consequences, one must take account of the political actions taken in response to the worsening economic situation after the crash. The Hoover administration was at fault before the crash in allowing the underlying weaknesses of an apparently buoyant economy to go unchecked. Its reaction to the onset of depression failed to restore confidence, through a reluctance to use federal assistance and employ federal controls.

The effect of the New Deal  President F D Roosevelt’s answer in the form of the New Deal from 1933 was to isolate America economically from the rest of a world now infected with depression, and to seek national rather than international recovery. He succeeded in mobilizing massive resources, and his pursuit of prosperity was strengthened by the munitions demands of World War II.

Conclusion  It is a paradox that the Great Depression was caused by abundance rather than the ‘iron law’ scarcity that governs some economic analyses. American farmers and workers were producing too much. They were too inventive in their modes of production and the enormous power of their economy crushed those of other states. With cruel irony, a surfeit of wealth and power brought disabling poverty.

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