

1929 Stock Exchange Crash and Franklin Roosevelt and the New Deal.

The end of World War I was an era of enthusiasm, confidence, and optimism in the USA. A time when inventions such as the airplane and radio made anything seem possible. A time when 19th century morals were set aside. It is in such times of optimism that people take their savings out from under their mattresses and out of banks and invest it. In the 1920s, many invested in the stock market.

The Stock Market Boom

Although the stock market has the reputation of being a risky investment, it did not appear that way in the 1920s. As more people invested in the stock market, stock prices began to rise. The stock market boom changed the way investors viewed the stock market. No longer was the stock market for long-term investment. In 1928 the stock market had become a place where everyday people truly believed that they could become rich. As newspapers reported stories of ordinary people making millions off the stock market, the fervor to buy stocks grew exponentially. Although an increasing number of people wanted to buy stocks, not everyone had the money to do so.

Buying on Margin

When someone did not have the money to pay the full price of stocks, they could buy stocks "on margin." Buying stocks on margin means that the buyer would put down some of his own money, but the rest he would borrow from a broker. In the 1920s, the buyer only had to put down 10 to 20 percent of his own money and thus borrowed 80 to 90 percent of the cost of the stock. Buying on margin could be very risky. If the price of stock fell lower than the loan amount, the buyer must come up with the cash to pay back his loan immediately ("margin call").

In the 1920s, many speculators (people who hoped to make a lot of money on the stock market) bought stocks on margin, confident in what seemed a never-ending rise in prices.

Signs of Trouble

By early 1929, the profits seemed so assured that even many companies placed money in the stock market. And even more problematically, some banks placed customers' money in the stock market (without their knowledge).

On March 25, 1929, the stock market suffered a mini-crash. It was a prelude of what was to come. As prices began to drop, panic struck across the country. When banker Charles Mitchell made an announcement that his bank would keep lending, his reassurance stopped the panic.

By the spring of 1929, there were additional signs that the economy might be headed for a serious setback. Steel production went down; house construction slowed; and car sales dropped.

At this time, there were also a few people warning of a major crash; however, as month after month went by without one, those that advised caution were labeled pessimists and ignored.

Summer Boom

From June through August, stock market prices reached their highest levels to date. On September 3, 1929, the stock market reached its peak with the Dow Jones Industrial Average closing at 381.17. Two days later, the market started dropping. At first, there was no massive drop. Stock prices fluctuated throughout September and into October until the massive drop on Black Thursday.

Black Thursday - October 24, 1929

On the morning of Thursday, October 24, 1929, stock prices dropped. Vast numbers of people were selling their stocks. Margin calls were sent out. People across the country watched the ticker as the numbers it spit out spelled their doom. The ticker was so overwhelmed that it quickly fell behind. A crowd gathered outside of the New York Stock Exchange on



Wall Street, stunned at the downturn. Rumors circulated of people committing suicide.

To the great relief of many, the panic subsided in the afternoon. When a group of bankers pooled their money and invested a large sum back into the stock market, their willingness to invest their own money in the stock market convinced others to stop selling. The morning had been shocking, but the recovery was amazing. By the end of the day, many people were again buying stocks at what they thought were bargain prices.

On "Black Thursday," 12.9 million shares were sold, double the previous record.

Four days later, the stock market fell again.

President Herbert Hoover.

The president was a Republican, Herbert Hoover. He believed that if you were in trouble you should help yourself and not expect others to help you. This he called "rugged individualism". Therefore he did not do a great deal to help those out of work.

"It is not the function of the government to relieve individuals of their responsibilities to their neighbours, or to relieve private institutions of their responsibilities to the public."

Hoover.



Hoover did not believe that the depression would last : "Prosperity is just around the corner" is what he said to businessmen in 1932 when things were just about at their worst. Campsites were created in cities to live in...called "Hoovervilles". The nick-name of the soup given out by charities for the unemployed was "Hoover stew".

However, Hoover did do some good. Money was used to create jobs to build things such as the Hoover Dam. In 1932 he gave \$300 million to the states to help the unemployed but it had little impact as states ruled by the Republicans believed in "rugged individualism" more than Hoover did and they used only \$30 million of the money offered to them.

Many saw Hoover's attempts as being "too little too late".

Franklin Delano Roosevelt and the New Deal.

In the November 1932 election, Hoover was heavily defeated by the Democrat candidate. This man had promised the American public a "New Deal". His name was Franklin Delano Roosevelt. Thirteen years of Republican rule had come to an end.

On March 4, 1933, at the height of the Great Depression, Franklin Roosevelt delivered his first inaugural address before 100,000 people on Washington's Capitol Plaza. "First of all," he said, "let me assert my firm belief that the only thing we have to fear is fear itself." He promised that he would act swiftly to face the "dark realities of the moment" and assured Americans that he would "wage a war against the emergency" His speech gave many people confidence that they had elected a man who was not afraid to take bold steps to solve the nation's problems.



The next day, the new president declared a four-day bank holiday to stop people from withdrawing their money from banks. On March 9, Congress passed Roosevelt's Emergency Banking Act, which reorganized the banks and closed the ones that were insolvent. In his first "fireside chat" three days later, the president urged Americans to put their savings back in the banks, and by the end of the month almost three quarters of them had reopened.

The First Hundred Days.

He asked Congress to take the first step toward ending Prohibition by making it legal once again for Americans to buy alcohol. (At the end of the year, Congress ratified the 21st Amendment and ended Prohibition.) In May, he signed the Tennessee Valley Authority Act into law, enabling the federal government to build dams along the Tennessee River that controlled flooding and generated inexpensive hydroelectric power for the people in the region. That same month, Congress passed a

bill that paid commodity farmers (farmers who produced things like wheat, dairy products, tobacco and corn) to leave their fields fallow in order to end agricultural surpluses and boost prices. June's National Industrial Recovery Act guaranteed that workers would have the right to unionize and negotiate collectively for higher wages and better working conditions.

The Second New Deal.

Despite the best efforts of President Roosevelt and his cabinet, however, the Great Depression continued: unemployment persisted and people grew angrier and more desperate. So, in the spring of 1935, Roosevelt launched a second, more aggressive series of federal programs, sometimes called the Second New Deal. In April, he created the Works Progress Administration (WPA) to provide jobs for unemployed people. WPA projects weren't allowed to compete with private industry, so they focused on building things like post offices, bridges, schools, highways and parks. The WPA also gave work to artists, writers, theater directors and musicians. In July 1935, the National Labor Relations Act created the National Labor Relations Board to supervise union elections and prevent businesses from treating their workers unfairly. In August, FDR signed the Social Security Act of 1935, which guaranteed pensions to millions of Americans, set up a system of unemployment insurance and stipulated that the federal government would help care for dependent children and the disabled.



In 1936, while campaigning for a second term, FDR told a crowd at Madison Square Garden that “The forces of ‘organized money’ are unanimous in their hate for me—and I welcome their hatred.” He went on: “I should like to have it said of my first Administration that in it the forces of selfishness and of lust for power met their match, [and] I should like to have it said of my second Administration that in it these forces have met their master.” Roosevelt promised a much more aggressive fight against the people who were profiting from the Depression-era troubles of ordinary Americans. He won the election by an overwhelming majority.

On December 7, 1941, the Japanese bombed Pearl Harbor and the United States entered World War II. The war effort stimulated American industry and, as a result, effectively ended the Great Depression.

Many of the New Deal programs –Social Security, unemployment insurance and federal agricultural subsidies, for instance, are still today.

