

Knowledge Map: USA 1910 – 1929 6. The end of prosperity

Summary:	In October 1929, the American Stock Market on Wall Street crashed. This was due to long term problems with the US economy, together with over – speculation on the stock market which led to panic selling of shares, the collapse in share prices and the crash of the stock market. The effects were disastrous leading to a depression and high unemployment. The Roaring Twenties had come to an abrupt end.
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Long term problems with the US economy

Summary
Many Americans didn't actually benefit from the economic boom which meant that over time the numbers who could afford the goods decreased which led to overproduction and a falling demand for consumer goods. The policies of the Republicans meant that it was very difficult to sell these products abroad. The government and bankers ignored any warnings of difficulties within the economy.

Key knowledge

1.	Groups living in poverty: Black Americans	Black Americans faced discrimination so were often poor. They were the last to get jobs and the first to be sacked. They were also paid comparatively lower wages. In rural areas they worked as sharecroppers.
2.	Groups living in poverty: Immigrant	Immigrants often did the lowest paid jobs. They faced a lot of discrimination and could take years to work their way into better paid jobs.
3.	Groups living in poverty: Rural communities	Farming families were often large. Many lived in basic accommodation. Food prices fell during the 1920s which meant farmers were making less and less money so could not afford to pay their rent and lost their farms.
4.	Low wages	During the 1920s wages barely rose despite the fact that prices had increased during the First World War. It was difficult for workers to increase their pay.
5.	Unequal distribution of wealth	The richest 1% of Americans received a 75% increase in their disposable income, while the other 99% only saw a 9% increase. 80% of Americans had no savings at all and 50% lived below the poverty line. The richest 5% of Americans earned 33% of all the money.
6.	Over-production	Too many goods were being produced (especially in farming). This meant they couldn't be sold therefore became worth less.
7.	Inability to sell to Europe	The solution to over-production would have been to sell the goods abroad. However European countries owed the USA over \$10 billion dollars in loans which the USA insisted on them paying back so couldn't afford the products. The Fordney McCumber Act had led to foreign countries doing the same on American products.
8.	Fall in property prices	In Florida property owners had seen a huge increase in the value of property as speculators bought property to sell on for a huge profit. Many borrowed money to do this. In 1926 property prices fell sharply leaving many owners in negative equity.

Short term reasons

Summary
Over-speculation (where more and more Americans bought shares on the stock market as share prices kept rising) and the ability to buy shares using credit 'on the margin' were short term causes of the Wall Street Crash.

Key knowledge

9.	Over-speculation	In 1928 share prices didn't rise as much as in previous years which led to a (temporary) lack of confidence. When they began to rise again over speculation returned. By October 1929 the value of stocks had reached \$87 billion (compared to \$27 billion in 1925).
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10.	Buying shares 'on the margin'	Many people bought shares using credit – this was called 'on the margin'. 75% of the purchase price of shares was borrowed which created artificially high prices. When prices began to fall problems set in.
11.	Panic selling	In the Autumn of 1929 some experts predicted the crash and started to sell shares. This caused share prices to fall and others rush to sell their shares.

The events of the Wall Street Crash

Summary
In October 1929 there was a complete collapse in prices of shares. This is known as the Wall Street Crash. These are main events of October 1929.

Key knowledge

12.	Sat. 19 th	3.5 million shares sold; prices fall.
13.	Monday 21 st	6 million shares changed hands; prices fell in the morning and rose in the afternoon.
14.	Tues 22 nd	Share prices rise slightly.
15.	Weds 23 rd	3 million shares are sold in the last hour of trading; more and more people are panic selling shares.
16.	Thurs 24 th	'Black Thursday'. 13 million shares are sold but there are no buyers. There is widespread panic.
17.	Friday 25 th	Top bankers decided to support the market and buy millions of shares for more than they are worth. Prices steady.
18.	Saturday 26 th	President Hoover assures people there is nothing to worry about.
19.	Monday 28 th	3 million shares sold in the last hour of trading. The banks stop supporting prices.
20.	Tuesday 29 th	'Black Tuesday'. The worst ever day on the stock market. Nearly 16.5 million shares have been traded. Shares have lost all value.

The effects of the Wall Street Crash.

Summary
There were severe consequences for the economy. It was followed by the Great Depression.

Key knowledge

21.	Unemployment	By the end of 1929 there were about 2.5 million unemployed. This continued to rise and within a few years there were 12 million unemployed.
22.	GNP	The Gross National Product fell by almost 50%.
	The Depression	Many banks went out of business; workforces were laid off; credit collapsed and loans were taken in. Farmers were hit terribly. Demand continued to fall and the economic problems got worse.

Key words

Sharecroppers	Earning very small amounts working on others farms.
Poverty line	The amount of money needed to survive without charity/government support.
Fordney McCumber Act	In 1922 it placed tariffs (similar to taxes) on goods coming in from Europe to encourage Americans to buy American goods.
Negative equity	Owing more than the property is worth.